

## NOTICE TO READER

The interim management's discussion and analysis of financial condition and results of operations of Medical Facilities Corporation for the quarter ended September 30, 2019 (originally filed on November 7, 2019) are being re-filed to correct the items indicated in the table below. No other changes have been made.

<b>Page No.</b>	<b>Item</b>	<b>Originally filed on November 7, 2019</b>	<b>Re-filed on November 13, 2019</b>
19	Cash provided by operating activities – Three months ended September 30, 2019	19,229	19,111
19	Cash provided by operating activities – Nine months ended September 30, 2019	58,941	58,823
19	Difference between accrual-based amounts and actual cash flows related to interest and taxes – Three months ended September 30, 2019	(1,214)	(1,096)
19	Difference between accrual-based amounts and actual cash flows related to interest and taxes – Nine months ended September 30, 2019	(3,003)	(2,885)
23	Cash Flow table: Cash provided by operating activities – Nine months ended September 30, 2019	58,941	58,823
23	Cash Flow table: Cash provided by operating activities – \$ Change from nine months ended September 30, 2018	(2,993)	(3,111)
23	Cash Flow table: Cash provided by operating activities – % Change from nine months ended September 30, 2018	(4.8%)	(5.0%)
23	Cash Flow table: Cash used in investing activities – Nine months ended September 30, 2019	(5,676)	(6,033)
23	Cash Flow table: Cash used in investing activities – \$ Change from	54,554	54,197

<b>Page No.</b>	<b>Item</b>	<b>Originally filed on November 7, 2019</b>	<b>Re-filed on November 13, 2019</b>
	nine months ended September 30, 2018		
23	Cash Flow table: Cash used in investing activities – % Change from nine months ended September 30, 2018	90.6%	90.0%
23	Cash Flow table: Cash used in financing activities – Nine months ended September 30, 2019	(52,115)	(51,640)
23	Cash Flow table: Cash used in financing activities – \$ Change from nine months ended September 30, 2018	(28,166)	(27,691)
23	Cash Flow table: Cash used in financing activities – % Change from nine months ended September 30, 2018	(117.6%)	(115.6%)
24	Decrease in cash from operating activities for the nine months ended September 30, 2019	3.0	3.1
24	Decrease in cash used in investing activities for the nine months ended September 30, 2019	54.6	54.2
24	Increase in cash used in financing activities for the nine months ended September 30, 2019	28.2	27.7

November 6, 2019

The following Management's Discussion and Analysis ("MD&A") is intended to assist readers in understanding Medical Facilities Corporation (the "Corporation"), its business environment, strategies, performance, outlook and the risks applicable to the Corporation. It is supplemental to and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes (the "financial statements") of the Corporation for the three and nine months ended September 30, 2019, 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, 2018 ("annual financial statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Corporation's annual MD&A for the year ended December 31, 2018 ("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](http://www.sedar.com).

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## **Table of Contents**

1.	Caution Concerning Forward-Looking Statements .....	2
2.	Non-IFRS Financial Measures.....	3
3.	Business Overview.....	3
4.	Financial and Performance Highlights.....	5
5.	Consolidated Operating and Financial Review.....	7
6.	Quarterly Operating and Financial Results.....	17
7.	Reconciliation of Non-IFRS Financial Measures .....	19
8.	Outlook .....	21
9.	Liquidity and Capital Resources .....	23
10.	Share Capital and Dividends.....	26
11.	Financial Instruments.....	27
12.	Related Party Transactions.....	29
13.	Critical Accounting Judgments and Estimates.....	30
14.	Disclosure Controls and Procedures and Internal Controls over Financial Reporting .....	32
15.	Risk Factors .....	33
16.	New and Revised IFRS Adopted .....	33
17.	New and Revised IFRS Not Yet Adopted .....	35

## 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 (which is available on SEDAR at [www.sedar.com](http://www.sedar.com)).

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

## 2. NON-IFRS FINANCIAL MEASURES

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

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

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

## 3. BUSINESS OVERVIEW

The Corporation is a British Columbia corporation. The capital of the Corporation is in the form of publicly traded common shares and 5.9% convertible unsecured subordinated debentures ("convertible debentures"). On November 7, 2019, the Corporation's dividend payment schedule will be changed from monthly to quarterly at an annual rate of Cdn\$0.28 per common share (refer to Section 10 "Share Capital and Dividends" of this MD&A under the heading "Dividends").

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

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

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

On May 28, 2019, St. Luke’s Episcopal-Presbyterian Hospitals (“St. Luke’s Hospital”) and MFC Nueterra Holding Company, LLC, the holding company of MFC Nueterra ASCs, announced plans to develop a new ambulatory surgery center on the west campus of St. Luke’s Hospital in Chesterfield, MO (“St. Luke’s ASC”), for which MFC Nueterra ASCs invested \$500 for a 30.0% non-controlling ownership interest. As part of this transaction, partial ownership in City Place Surgery Center was sold to St. Luke’s Hospital for total proceeds of \$5,048, of which \$505 was paid to non-controlling interest for net proceeds of \$4,543 to the Corporation, reducing the Corporation’s indirect ownership interest in City Place Surgery Center from 51.3% to 26.1%. The Corporation retains the control over this center through its operating agreement by having continued representation on the governing board and majority voting rights, and consolidates its results in consolidated financial statements.

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

Revenue for any given period is dependent on the volume of the procedures performed as well as the acuity and complexity of the procedures (“case mix”) and composition of payors (“payor mix”), including federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Various payors have different reimbursement rates for the same type of procedure which are generally based on either predetermined rates per procedure or discounted fee-for-service rates. Medicare and Medicaid typically have lower reimbursement rates than other payors.

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

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

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

sheet. The non-controlling interest owners of two Facilities have exercised portions of their exchangeable interests.

### **Summary of Facility Information as of September 30, 2019**

	Arkansas Surgical Hospital ("ASH")	Unity Medical and Surgical Hospital ("UMASH")	Oklahoma Spine Hospital ("OSH")	Black Hills Surgical Hospital ("BHS")	Sioux Falls Specialty Hospital ("SFSH")	The Surgery Center of Newport Coast ("SCNC")	MFC Nueterra ASCs ("MFC Nueterra")
Location	North Little Rock Arkansas	Mishawaka Indiana	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California	Seven locations <sup>(2)</sup>
Year Opened	2005	2009	1999	1997	1985	2004	2006-2011
Year Acquired by the Corporation	2012	2016	2005	2004	2004	2008	2018
Ownership Interest	51.0%	80.8%	64.0%	54.2%	51.0%	51.0%	26-56% <sup>(2)</sup>
Non-controlling Interest	49.0%	19.2%	36.0%	45.8%	49.0%	49.0%	44-74% <sup>(2)</sup>
Exchangeable Interest	5.0%	-	1.0%	10.8%	14.0%	-	-
Size	126,000 sq ft	49,000 sq ft	61,000 sq ft	75,000 sq ft	76,000 sq ft	7,000 sq ft	5,000-13,200 sq ft
Operating/Procedure Rooms	11/2	4/2	7/2	11	15	2/1	18/7
Overnight Rooms	41 <sup>(1)</sup>	29	25	26	33	-	-

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

<sup>(2)</sup> Through the MFC Nueterra Partnership, the Corporation owns indirect interests between approximately 26% to 56% in seven ASCs, situated in Arkansas, Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania.

## **4. FINANCIAL AND PERFORMANCE HIGHLIGHTS**

### **Selected Financial Information**

<i>Unaudited</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
<i>In thousands of U.S. dollars, except per share amounts and as indicated otherwise</i>	2019	2018	2019	2018
Facility service revenue	102,106	104,207	302,189	308,319
Operating expenses	111,289	87,688	320,606	259,816
Income (loss) from operations	(9,183)	16,519	(18,417)	48,503
Net income (loss) and comprehensive income (loss) for the period	6,199	8,007	(2,584)	31,586
Attributable to:				
Owners of the Corporation	2,869	2,135	(10,225)	12,663
Non-controlling interest <sup>(1)</sup>	3,330	5,872	7,641	18,923
Earnings (loss) per share attributable to owners of the Corporation				
Basic	\$0.09	\$0.07	(\$0.33)	\$0.41
Fully diluted	(\$0.28)	\$0.07	(\$0.74)	\$0.39
EBITDA <sup>(2)</sup>	(568)	22,648	8,359	66,626
Adjusted EBITDA <sup>(2)</sup>	21,432	22,648	59,859	66,626
Cash available for distribution <sup>(2)</sup>	C \$5,291	C \$9,433	C \$15,421	C \$30,394
Distributions <sup>(2)</sup>	C \$8,749	C \$8,714	C \$26,222	C \$26,130
Cash available for distribution per common share <sup>(2)</sup>	C \$0.170	C \$0.300	C \$0.496	C \$0.980
Distributions per common share <sup>(2)</sup>	C \$0.281	C \$0.281	C \$0.844	C \$0.840
Payout ratio <sup>(2)</sup>	165.3%	92.4%	170.2%	86.0%

<sup>(1)</sup> Net income (loss) and comprehensive income (loss) 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, net income (loss) and comprehensive income (loss) 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.

<sup>(2)</sup> *Non-IFRS financial measure. Please refer to Section 2 under the heading “Non-IFRS Financial Measures”, Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures” and Section 5 under “Reconciliation of net income and comprehensive income for the period to EBITDA”.*

### **Selected Financial Information for the Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018**

For the three months ended September 30, 2019, revenue was \$102.1 million, a decrease of 2.0% from \$104.2 million for the same period in 2018, as Facilities experienced lower average revenue per case due to case mix and payor mix, partly offset by higher case volumes. EBITDA was negative \$0.6 million or negative 0.6% of revenue compared to \$22.6 million or 21.7% for the same period last year due mainly to a \$22.0 million non-cash charge for impairment of goodwill in MFC Nueterra ASCs (the “MFC Nueterra ASCs impairment charge”), and lower revenue, partially offset by the reduced operating expenses from the impact of adoption IFRS 16, *Leases* (“IFRS 16”). Excluding the impact of the MFC Nueterra ASCs impairment charge, Adjusted EBITDA was \$21.4 million or 21.0% of revenue. Net income and comprehensive income for the period was \$6.2 million compared to \$8.0 million for the same period in 2018, with the decrease mainly attributable to lower income from operations inclusive of the MFC Nueterra ASCs impairment charge, partly offset by a decrease in the value exchangeable interest liability (refer to Section 5 “Consolidated Operating and Financial Review” of this MD&A under the heading “Change in Value of Exchangeable Interest Liability”). The Corporation generated cash available for distribution of Cdn\$5.3 million for the same period, representing a decrease of Cdn\$4.1 million or 43.6% from Cdn\$9.4 million for the same period in the prior year. Distributions per common share remained consistent at Cdn\$0.281 for this period and the same period last year, while the payout ratio was 165.3% for this period compared to 92.4% for the three months ended September 30, 2018. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures”.

### **Selected Financial Information for the Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018**

For the nine months ended September 30, 2019, revenue was \$302.2 million, a decrease of 2.0% from \$308.3 million for the same period in 2018 with the decline primarily due to lower average revenue per case due to case mix and payor mix, partially offset by higher case volumes. EBITDA was \$8.4 million or 2.8% of revenue compared to \$66.6 million or 21.6% for the same period last year due to the MFC Nueterra ASCs impairment charge, and a \$29.5 million non-cash charge for impairment of goodwill and other intangibles in UMASH (the “UMASH impairment charge”), partially offset by the IFRS 16 impact on operating expenses. Excluding the impact of the impairment charges, Adjusted EBITDA was \$59.9 million or 19.8% of revenue. Net loss and comprehensive loss for the period was \$2.6 million compared to income of \$31.6 million for the same period in 2018, with the decrease mainly attributable to lower income from operations inclusive of the impairment charges, and higher interest expense, partly offset by lower income tax expenses and a decrease in the value of exchangeable interest liability. The Corporation generated cash available for distribution of Cdn\$15.4 million, representing a decrease of Cdn\$15.0 million or 49.3% from Cdn\$30.4 million for the same period in the prior year. Distributions per common share remained consistent between the years at Cdn\$0.844, while the payout ratio was 170.2% for this period compared to 86.0% for the nine months ended September 30, 2018. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures”.

## 5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

### Three months ended September 30, 2019

The following table and discussion compare operating and financial results of the Corporation for the three months ended September 30, 2019 to the three months ended September 30, 2018.

<i>Unaudited</i>	Three Months Ended			
	September 30,			
<i>In thousands of U.S. dollars, except per share amounts</i>	2019	2018	\$ Change	% Change
<b>Facility service revenue</b>	<b>102,106</b>	<b>104,207</b>	<b>(2,101)</b>	<b>(2.0%)</b>
<b>Operating expenses</b>				
Salaries and benefits	30,690	30,060	630	2.1%
Drugs and supplies	33,419	32,660	759	2.3%
General and administrative expenses	16,565	18,839	(2,274)	(12.1%)
Impairment of goodwill and other intangibles	22,000	-	22,000	100.0%
Depreciation of property and equipment	2,782	2,780	2	0.1%
Depreciation of right-of-use assets	2,305	-	2,305	100.0%
Amortization of other intangibles	3,528	3,349	179	5.3%
	<b>111,289</b>	<b>87,688</b>	<b>23,601</b>	<b>26.9%</b>
<b>Income (loss) from operations</b>	<b>(9,183)</b>	<b>16,519</b>	<b>(25,702)</b>	<b>(155.6%)</b>
<b>Finance costs</b>				
Change in value of convertible debentures	(675)	428	(1,103)	(257.7%)
Change in value of exchangeable interest liability	(20,212)	2,316	(22,528)	(972.7%)
Interest expense on exchangeable interest liability	1,515	1,922	(407)	(21.2%)
Interest expense, net of interest income	2,741	1,841	900	48.9%
Loss (gain) on foreign currency	141	(210)	351	167.1%
	<b>(16,490)</b>	<b>6,297</b>	<b>(22,787)</b>	<b>(361.9%)</b>
<b>Income before income taxes</b>	<b>7,307</b>	<b>10,222</b>	<b>(2,915)</b>	<b>(28.5%)</b>
Income tax expense	1,108	2,215	(1,107)	(50.0%)
<b>Net income and comprehensive income for the period</b>	<b>6,199</b>	<b>8,007</b>	<b>(1,808)</b>	<b>(22.6%)</b>
Attributable to:				
Owners of the Corporation	2,869	2,135	734	34.4%
Non-controlling interest	3,330	5,872	(2,542)	(43.3%)
Basic earnings per share attributable to owners of the Corporation	\$0.09	\$0.07	0.02	28.6%
Fully diluted earnings (loss) per share attributable to owners of the Corporation	(\$0.28)	\$0.07	(0.35)	(500.0%)
<b>Reconciliation of net income and comprehensive income for the period to EBITDA<sup>(1)</sup></b>				
Net income and comprehensive income for the period	6,199	8,007	(1,808)	(22.6%)
Income tax expense	1,108	2,215	(1,107)	(50.0%)
Finance costs	(16,490)	6,297	(22,787)	(361.9%)
Depreciation of property and equipment	2,782	2,780	2	0.1%
Depreciation of right-of-use assets	2,305	-	2,305	100.0%
Amortization of other intangibles	3,528	3,349	179	5.3%
<b>EBITDA<sup>(1)</sup></b>	<b>(568)</b>	<b>22,648</b>	<b>(23,216)</b>	<b>(102.5%)</b>
Impairment of goodwill	22,000	-	22,000	100.0%
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>21,432</b>	<b>22,648</b>	<b>(1,216)</b>	<b>(5.4%)</b>

<sup>(1)</sup> 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>	<b>Three Months Ended September 30,</b>			
<i>In thousands of U.S. dollars</i>	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
ASH	16,717	16,780	(63)	(0.4%)
UMASH	5,570	10,590	(5,020)	(47.4%)
OSH	19,968	18,752	1,216	6.5%
BHSH	22,753	21,338	1,415	6.6%
SFSH	27,545	25,977	1,568	6.0%
SCNC	1,924	2,125	(201)	(9.5%)
MFC Nueterra ASCs	7,629	8,645	(1,016)	(11.8%)
RRIMH	572	561	11	2.0%
Intercompany eliminations	(572)	(561)	(11)	(2.0%)
<b>Facility service revenue</b>	<b>102,106</b>	<b>104,207</b>	<b>(2,101)</b>	<b>(2.0%)</b>

For the three months ended September 30, 2019, revenue decreased from the same period in 2018 by \$2.1 million or 2.0%. The decrease was primarily attributable to the combined impact of payor and case mix (\$2.6 million), as well as an increase in bad debt expenses (\$0.6 million), partly offset by an increase in case volumes (\$0.8 million).

Total surgical cases increased by 1.1%, as outpatient cases decreased by 0.7% but inpatient cases increased by 6.2%, while observation cases increased by 10.6%. UMASH, OSH, BHSH and SFSH had notable increases, partially offset by decreases at MFC Nueterra ASCs. In terms of payors, Medicare cases grew by 7% and commercial payor cases by 0.9%.

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

- ASH's revenue decreased mainly due to payor mix, as well as case mix because of fewer high acuity cases, partly offset by higher case volumes.
- UMASH's revenue decreased mainly due to payor mix as commercial payors were down while Medicare and similar payors were up, and case mix, as outpatient cases with lower acuity increased while inpatient spine cases declined, partly offset by higher surgical case volumes which were up by 14.9%.
- OSH's revenue increased mainly due to higher surgical and pain case volumes, partly offset by payor mix due to increased Medicare and similar payors.
- BHSH's revenue increased mainly due to case mix, increased urgent care revenue, and higher surgical case volumes, partly offset by payor mix, in which Medicare and similar payors were up.
- SFSH's revenue increased mainly due to case mix as orthopedic and orthopedic spine cases increased, and higher case volumes, partly offset by payor mix and higher bad debt expenses.
- SCNC's revenue decreased mainly due to payor mix combined with lower case volumes.
- MFC Nueterra ASCs' revenue decreased mainly due to case mix and lower case volumes at Two Rivers Ambulatory Surgery Center.
- RRIMH's revenue, which is fully eliminated, was relatively unchanged.
- The intercompany revenue elimination relates to RRIMH's lease revenue from UMASH.

## Operating Expenses

In the three months ended September 30, 2019, consolidated operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses, the impairment charge, depreciation of property and equipment, depreciation of right-of-use assets, and amortization of other intangibles (“operating expenses”), increased \$23.6 million or 26.9% from the same period in the prior year, to \$111.3 million. As a percentage of revenue, operating expenses increased to 109.0% from 84.1% in the same period a year earlier.

<i>Unaudited</i>						
Three Months Ended September 30,						
<i>In thousands of U.S. dollars</i>	2019	Percentage of Revenue	2018	Percentage of Revenue	\$ Change	% Change
ASH	13,661	81.7%	13,798	82.2%	(137)	(1.0%)
UMASH	7,968	143.1%	9,170	86.6%	(1,202)	(13.1%)
OSH	17,398	87.1%	15,672	83.6%	1,726	11.0%
BHSH	17,790	78.2%	16,417	76.9%	1,373	8.4%
SFSH	19,759	71.7%	18,262	70.3%	1,497	8.2%
SCNC	1,505	78.2%	1,572	74.0%	(67)	(4.3%)
MFC Nueterra ASCs	6,730	88.2%	7,927	91.7%	(1,197)	(15.1%)
RRIMH	168	29.4%	168	29.9%	-	0.0%
Corporate and intercompany eliminations	26,310	n/a	4,702	n/a	21,608	459.5%
<b>Operating expenses</b>	<b>111,289</b>	<b>109.0%</b>	<b>87,688</b>	<b>84.1%</b>	<b>23,601</b>	<b>26.9%</b>

Consolidated salaries and benefits increased by \$0.6 million or 2.1%, primarily due to higher benefit costs from higher utilization, partly offset by lower stock based compensation at corporate level. As a percentage of revenue, consolidated salaries and benefits increased to 30.1% from 28.8% a year earlier.

Consolidated drugs and supplies increased by \$0.8 million or 2.3%, primarily due to higher case volumes in some Facilities, higher pricing for implants and supplies, and case mix, resulting in more implants being required. As a percentage of revenue, the consolidated cost of drugs and supplies increased to 32.7% from 31.3% a year earlier.

Consolidated general and administrative expenses (“G&A”) decreased by \$2.3 million or 12.1%. The decrease in G&A was mainly attributable to the IFRS 16 impact from lower rent expenses (\$2.6 million), partly offset by higher professional fees (\$0.4 million). As a percentage of revenue, consolidated G&A decreased to 16.2% from 18.1% a year earlier.

Due to the ongoing underperformance at certain MFC Nueterra ASCs, the Corporation recorded a non-cash goodwill impairment charge of \$22.0 million in the period relating to the MFC Nueterra ASCs cash-generating unit (“CGU”) (refer to Section 13 “Critical Accounting Judgements and Estimates” of this MD&A under the heading “Impairment of Non-Financial Assets”).

Consolidated depreciation of property and equipment was unchanged year over year. As a percentage of revenue, consolidated depreciation of property and equipment remained consistent at 2.7%.

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

Consolidated amortization of other intangibles increased by \$0.2 million or 5.3% mainly due to the acquisition of MFC Nueterra ASCs in the prior year. As a percentage of revenue, consolidated amortization of other intangibles increased to 3.5% from 3.2% a year earlier.

## Income (Loss) from Operations

Consolidated loss from operations for the three months ended September 30, 2019 of \$9.2 million was \$25.7 million or 155.6% lower than consolidated income from operations of \$16.5 million, recorded in the same period a year earlier, representing negative 9.0% of revenue, compared to 15.9% in the same period in 2018. The decrease was mainly the result of the MFC Nueterra ASCs impairment charge, and the operating income decreases at UMASH, OSH and SCNC.

<i>Unaudited</i>						
Three Months Ended September 30,						
<i>In thousands of U.S. dollars</i>	2019	Percentage of Revenue	2018	Percentage of Revenue	\$ Change	% Change
ASH	3,055	18.3%	2,982	17.8%	73	2.4%
UMASH	(2,398)	(43.1%)	1,419	13.4%	(3,817)	(269.0%)
OSH	2,570	12.9%	3,080	16.4%	(510)	(16.6%)
BHSH	4,963	21.8%	4,921	23.1%	42	0.9%
SFSH	7,786	28.3%	7,715	29.7%	71	0.9%
SCNC	420	21.8%	553	26.0%	(133)	(24.1%)
MFC Nueterra ASCs	900	11.8%	718	8.3%	182	25.3%
RRIMH	404	70.6%	393	70.1%	11	2.8%
Corporate	(26,883)	n/a	(5,262)	n/a	(21,621)	(410.9%)
<b>Income (loss) from operations</b>	<b>(9,183)</b>	<b>(9.0%)</b>	<b>16,519</b>	<b>15.9%</b>	<b>(25,702)</b>	<b>(155.6%)</b>

## Finance Costs

### *Change in Value of Convertible Debentures*

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

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

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	September 30, 2019 <i>Unaudited</i>	June 30, 2019 <i>Unaudited</i>	Change	September 30, 2018 <i>Unaudited</i>	June 30, 2018 <i>Unaudited</i>	Change
Face value of convertible debentures outstanding	C\$41,743	C\$41,743	C\$ -	C\$41,743	C\$41,743	C\$ -
Closing price of convertible debentures outstanding	C\$100.00	C\$100.99	(C\$0.99)	C\$100.85	C\$101.27	(C\$0.42)
Closing exchange rate of U.S. dollar to Canadian dollar	\$1.3242	\$1.3093	\$0.0149	\$1.2911	\$1.3137	(\$0.0226)
<b>Market value of convertible debentures outstanding</b>	<b>31,523</b>	<b>32,198</b>	<b>(675)</b>	<b>32,606</b>	<b>32,179</b>	<b>428</b>

### *Change in Value of Exchangeable Interest Liability*

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

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

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>Change</b>	<b>September 30, 2018</b>	<b>June 30, 2018</b>	<b>Change</b>
	<i>Unaudited</i>	<i>Unaudited</i>		<i>Unaudited</i>	<i>Unaudited</i>	
Number of common shares to be issued for exchangeable interest liability	6,033,881	6,002,516	31,365	5,897,908	6,026,972	(129,064)
Closing price of the Corporation's common shares	C\$8.03	C\$12.39	(C\$4.36)	C\$14.35	C\$13.97	C\$0.38
Closing exchange rate of U.S. dollar to Canadian dollar	\$1.3242	\$1.3093	\$0.0149	\$1.2911	\$1.3137	(\$0.0226)
<b>Exchangeable interest liability</b>	<b>36,590</b>	<b>56,802</b>	<b>(20,212)</b>	<b>65,553</b>	<b>64,091</b>	<b>1,462</b>
Exercise of exchangeable rights by the holder of non-controlling interests						855
<b>Change in value of exchangeable interest liability</b>			<b>(20,212)</b>			<b>2,316</b>

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

Interest expense on the exchangeable interest liability decreased by \$0.4 million primarily due to the variation in distributions from the Facilities between the reporting periods.

### ***Interest Expense***

Interest expense, net of interest income, increased by \$0.9 million versus the comparative period due to incremental lease interest recorded upon adoption of IFRS 16, along with higher interest rates and debt outstanding versus the prior year.

### ***Foreign Currency***

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares and convertible debentures are made in Canadian dollars. Foreign currency loss increased by \$0.4 million compared to the same quarter in 2018 due to the relative change in foreign exchange rates.

### **Income Tax**

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

<i>Unaudited</i>	<b>Three Months Ended September 30,</b>			
<i>In thousands of U.S. dollars</i>	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
Current income tax expense (recovery)	(258)	1,431	(1,689)	(118.0%)
Deferred income tax expense	1,366	784	582	74.2%
<b>Income tax expense</b>	<b>1,108</b>	<b>2,215</b>	<b>(1,107)</b>	<b>(50.0%)</b>

The decrease in current income tax expense reflected the net impact of lower U.S. current tax resulting from lower Facility income, partly offset by higher Canadian current income tax. The increase in the deferred income tax expense versus the prior year was primarily attributable to the impact of the change in exchangeable interest liability, partly offset by the tax effect of the impairment charge.

### **Net Income and Comprehensive Income**

The \$1.8 million decrease in net income and comprehensive income in the three months ended September 30, 2019 from the same period in the prior year was mainly attributable to the impairment charge and lower income from the Facilities, partly offset by a decrease in the value of exchangeable interest liability.

### **EBITDA**

EBITDA decreased by \$23.2 million during the three months ended September 30, 2019. The decrease was mainly the result of the MFC Nueterra ASCs impairment charge and EBITDA declines at UMASH and OSH.

For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of net income and comprehensive income for the period to EBITDA”.

## Adjusted EBITDA

Adjusted EBITDA of \$21.4 million for the three months ended September 30, 2019 decreased from \$22.6 million in the same period a year earlier, representing 21.0% of revenue, versus 21.7% prior year.

### Nine Months Ended September 30, 2019

The following table and discussion compare operating and financial results of the Corporation for the nine months ended September 30, 2019 to the nine months ended September 30, 2018.

<i>Unaudited</i>	<b>Nine Months Ended</b>			
	<b>September 30,</b>			
<i>In thousands of U.S. dollars, except per share amounts</i>	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Facility service revenue</b>	302,189	308,319	(6,130)	(2.0%)
<b>Operating expenses</b>				
Salaries and benefits	93,570	88,577	4,993	5.6%
Drugs and supplies	98,147	94,359	3,788	4.0%
General and administrative expenses	50,613	58,757	(8,144)	(13.9%)
Impairment of goodwill and other intangibles	51,500	-	51,500	100.0%
Depreciation of property and equipment	8,840	8,221	619	7.5%
Depreciation of right-of-use assets	7,123	-	7,123	100.0%
Amortization of other intangibles	10,813	9,902	911	9.2%
	<b>320,606</b>	<b>259,816</b>	<b>60,790</b>	<b>23.4%</b>
<b>Income (loss) from operations</b>	<b>(18,417)</b>	<b>48,503</b>	<b>(66,920)</b>	<b>(138.0%)</b>
<b>Finance costs</b>				
Change in value of convertible debentures	891	(926)	1,817	196.2%
Change in value of exchangeable interest liability	(28,767)	(344)	(28,423)	(8,262.5%)
Interest expense on exchangeable interest liability	5,251	6,580	(1,329)	(20.2%)
Interest expense, net of interest income	8,416	4,680	3,736	79.8%
Loss (gain) on foreign currency	(247)	212	(459)	(216.5%)
	<b>(14,456)</b>	<b>10,202</b>	<b>(24,658)</b>	<b>(241.7%)</b>
<b>Income (loss) before income taxes</b>	<b>(3,961)</b>	<b>38,301</b>	<b>(42,262)</b>	<b>(110.3%)</b>
Income tax expense (recovery)	(1,377)	6,715	(8,092)	(120.5%)
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>(2,584)</b>	<b>31,586</b>	<b>(34,170)</b>	<b>(108.2%)</b>
Attributable to:				
Owners of the Corporation	(10,225)	12,663	(22,888)	(180.7%)
Non-controlling interest	7,641	18,923	(11,282)	(59.6%)
Basic earnings (loss) per share attributable to owners of the Corporation	(\$0.33)	\$0.41	(0.74)	(180.5%)
Fully diluted earnings (loss) per share attributable to owners of the Corporation	(\$0.74)	\$0.39	(1.13)	(289.7%)
<b>Reconciliation of net income and comprehensive income for the period to EBITDA <sup>(1)</sup></b>				
Net income (loss) and comprehensive income (loss) for the period	(2,584)	31,586	(34,170)	(108.2%)
Income tax expense (recovery)	(1,377)	6,715	(8,092)	(120.5%)
Finance costs	(14,456)	10,202	(24,658)	(241.7%)
Depreciation of property and equipment	8,840	8,221	619	7.5%
Depreciation of right-of-use assets	7,123	-	7,123	100.0%
Amortization of other intangibles	10,813	9,902	911	9.2%
<b>EBITDA<sup>(1)</sup></b>	<b>8,359</b>	<b>66,626</b>	<b>(58,267)</b>	<b>(87.5%)</b>
Impairment of goodwill and other intangibles	51,500	-	51,500	100.0%
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>59,859</b>	<b>66,626</b>	<b>(6,767)</b>	<b>(10.2%)</b>

<sup>(1)</sup> 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>	<b>Nine Months Ended September 30,</b>			
<i>In thousands of U.S. dollars</i>	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
ASH	50,120	48,818	1,302	2.7%
UMASH	18,040	29,427	(11,387)	(38.7%)
OSH	54,192	51,630	2,562	5.0%
BHSH	68,476	66,609	1,867	2.8%
SFSH	81,230	80,805	425	0.5%
SCNC	5,629	5,910	(281)	(4.8%)
MFC Nueterra ASCs	24,502	24,202	300	1.2%
RRIMH	1,717	1,683	34	2.0%
IMD	-	2,451	(2,451)	(100.0%)
Intercompany eliminations	(1,717)	(3,216)	1,499	46.6%
<b>Facility service revenue</b>	<b>302,189</b>	<b>308,319</b>	<b>(6,130)</b>	<b>(2.0%)</b>

For the nine months ended September 30, 2019, revenue decreased from the same period in 2018 by \$6.1 million or 2.0%. The decrease was primarily attributable to the combined impact of payor and case mix (\$10.8 million) and the discontinuation of revenue from IMD net of intercompany elimination (\$1.0 million), partly offset by an increase in case volumes (\$3.2 million).

Total surgical cases increased by 4.2%, as outpatient cases increased by 4.2%, inpatient cases increased by 1.9%, and observation cases increased by 14.0%. MFC Nueterra ASCs, UMASH and ASH had notable increases. Surgical case volume growth over the same period last year came predominantly from Medicare and commercial payors, which grew by 10% and 2%, respectively.

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

- ASH's revenue increased mainly due to higher case volume and a lower Medicaid tax, partly offset by case mix with decreases in stimulator insertion cases.
- UMASH's revenue decreased mainly due to case mix, in which outpatient cases with lower acuity such as ophthalmology and urology increased while inpatient orthopedics cases declined, as well as payor mix where lower cases with commercial payor were noted, partly offset by higher case volumes.
- OSH's revenue increased mainly due to higher case volume, including higher pain clinic revenues, partly offset by payor mix, in which Medicare cases were up while commercial and Workers' Compensation payor cases were down.
- BHSH's revenue increased due to higher case volume from urgent care including the new Gillette clinic, and case mix, partly offset by lower surgical case volume and payor mix.
- SFSH's revenue increased due to higher case volume and case mix, partially offset by payor mix as Medicare and similar payors were up while other commercial payor cases were down.
- SCNC's revenue decreased mainly due to payor mix as well as lower case volume.
- The MFC Nueterra ASCs' revenue decreased due to case mix and lower volumes at Two Rivers Ambulatory Surgery Center, partly offset by the extra month of operations in the current year, based on the February 1, 2018 acquisition date.
- RRIMH's revenue, which is fully eliminated, was relatively unchanged.
- IMD's revenue was nil for the current year based on the sale of its assets on June 1, 2018.
- The intercompany revenue elimination relates primarily to IMD's service revenue from OSH up to the date IMD's assets were sold, and RRIMH's lease revenue from UMASH.

## Operating Expenses

For the nine months ended September 30, 2019, operating expenses increased \$60.8 million or 23.4% from the same period in the prior year to \$320.6 million, inclusive of the impairment charges. As a percentage of revenue, operating expenses increased to 106.1% from 84.3% in the same period a year earlier.

<i>Unaudited</i>	<b>Nine Months Ended September 30,</b>					
<i>In thousands of U.S. dollars</i>	<b>2019</b>	<b>Percentage of Revenue</b>	<b>2018</b>	<b>Percentage of Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
ASH	40,790	81.4%	39,908	81.7%	882	2.2%
UMASH	23,991	133.0%	28,068	95.4%	(4,077)	(14.5%)
OSH	50,290	92.8%	44,916	87.0%	5,374	12.0%
BHSH	53,050	77.5%	49,251	73.9%	3,799	7.7%
SFSH	57,654	71.0%	55,980	69.3%	1,674	3.0%
SCNC	4,814	85.5%	4,711	79.7%	103	2.2%
MFC Nueterra ASCs	21,417	87.4%	20,432	84.4%	985	4.8%
RRIMH	510	29.7%	512	30.4%	(2)	(0.4%)
IMD	-	n/a	1,843	75.2%	(1,843)	(100.0%)
Corporate and intercompany eliminations	68,090	n/a	14,195	n/a	53,895	379.7%
<b>Operating expenses</b>	<b>320,606</b>	<b>106.1%</b>	<b>259,816</b>	<b>84.3%</b>	<b>60,790</b>	<b>23.4%</b>

Consolidated salaries and benefits increased by \$5.0 million or 5.6%, primarily due to higher wages for increased case acuity and increased pain clinic staff at OSH (\$1.7 million), wage increases (\$1.5 million), contractual separation costs related to the outgoing Chief Financial Officer (\$1.1 million), increased salaries with the opening of BHSH urgent care center in Gillette, WY (\$1.1 million), and higher benefit costs due to increased utilization (\$0.7 million), partly offset by the discontinuation of expenses from IMD (\$1.4 million). As a percentage of revenue, consolidated salaries and benefits increased to 31.0% from 28.7% a year earlier.

Consolidated drugs and supplies increased by \$3.8 million or 4.0%, primarily driven by case mix requiring more implants and higher implant costs (\$1.7 million), higher case volumes (\$0.6 million), and the extra month of operations from MFC Nueterra ASCs (\$0.9 million). As a percentage of revenue, the consolidated cost of drugs and supplies increased to 32.5% from 30.6% a year earlier.

Consolidated G&A decreased by \$8.1 million or 13.9%. The decrease in G&A was mainly attributable to the IFRS 16 impact from lower rent expenses (\$8.2 million) and the discontinuation of expenses from IMD (\$0.9 million), partly offset by the extra month of operations from MFC Nueterra ASCs (\$0.9 million). As a percentage of revenue, consolidated G&A decreased to 16.7% from 19.1% a year earlier.

Due to the ongoing underperformance at certain MFC Nueterra ASCs and the continued volume and case mix challenges at UMASH, the Corporation recorded non-cash goodwill and other intangibles impairment charges of \$22.0 million and \$29.5 million, respectively, in the period (refer to Section 13 “Critical Accounting Judgements and Estimates” of this MD&A under the heading “Impairment of Non-Financial Assets”).

Consolidated depreciation of property and equipment increased by \$0.6 million or 7.5%, primarily due to the impact of MFC Nueterra ASCs and the purchase of additional assets. As a percentage of revenue, consolidated depreciation of property and equipment increased to 2.9% from 2.7% a year earlier.

Consolidated depreciation of right-of-use assets equaled \$7.1 million due to the IFRS 16 adoption, which represented 2.4% of revenue.

Consolidated amortization of other intangibles increased by \$0.9 million or 9.2% mainly due to the acquisition of MFC Nueterra ASCs in the prior year. As a percentage of revenue, consolidated amortization of other intangibles increased to 3.6% from 3.2% a year earlier.

## Income (Loss) from Operations

Consolidated loss from operations for the nine months ended September 30, 2019 of \$18.4 million was \$66.9 million or 138.0% lower than consolidated income from operations of \$48.5 million, recorded in the same period a year earlier, representing negative 6.1% of revenue, compared to 15.7% in the same period in 2018. The decrease is mainly the result of the impairment charges, and operating income decreases throughout the Facilities, with the exception of ASH and RRIMH.

<i>Unaudited</i>						
Nine Months Ended September 30,						
<i>In thousands of U.S. dollars</i>	2019	Percentage of Revenue	2018	Percentage of Revenue	\$ Change	% Change
ASH	9,330	18.6%	8,910	18.3%	420	4.7%
UMASH	(5,950)	(33.0%)	1,358	4.6%	(7,308)	(538.1%)
OSH	3,902	7.2%	6,714	13.0%	(2,812)	(41.9%)
BHSH	15,426	22.5%	17,358	26.1%	(1,932)	(11.1%)
SFSH	23,575	29.0%	24,825	30.7%	(1,250)	(5.0%)
SCNC	815	14.5%	1,199	20.3%	(384)	(32.0%)
MFC Nueterra ASCs	3,086	12.6%	3,770	15.6%	(684)	(18.1%)
RRIMH	1,206	70.2%	1,171	69.6%	35	3.0%
IMD	-	n/a	608	24.8%	(608)	(100.0%)
Corporate	(69,807)	n/a	(17,410)	n/a	(52,397)	(301.0%)
<b>Income (loss) from operations</b>	<b>(18,417)</b>	<b>(6.1%)</b>	<b>48,503</b>	<b>15.7%</b>	<b>(66,920)</b>	<b>(138.0%)</b>

## Finance Costs

### *Change in Value of Convertible Debentures*

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

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

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	September 30, 2019 <i>Unaudited</i>	December 31, 2018	Change	September 30, 2018 <i>Unaudited</i>	December 31, 2017	Change
Face value of convertible debentures outstanding	C\$41,743	C\$41,743	C\$ -	C\$41,743	C\$41,743	C\$ -
Closing price of convertible debentures outstanding	C\$100.00	C\$100.10	(C\$0.10)	C\$100.85	C\$101.00	(C\$0.15)
Closing exchange rate of U.S. dollar to Canadian dollar	\$1.3242	\$1.3641	(\$0.0399)	\$1.2911	\$1.2573	\$0.0338
<b>Market value of convertible debentures outstanding</b>	<b>31,523</b>	<b>30,632</b>	<b>891</b>	<b>32,606</b>	<b>33,533</b>	<b>(926)</b>

### *Change in Value of Exchangeable Interest Liability*

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

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

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	September 30,	December 31,	Change	September 30,	December 31,	Change
	2019	2018		2018	2017	
	<i>Unaudited</i>			<i>Unaudited</i>		
Number of common shares to be issued for exchangeable interest liability	6,033,881	5,970,862	63,019	5,897,908	5,929,304	(31,396)
Closing price of the Corporation's common shares	C\$8.03	C\$15.04	(C\$7.01)	C\$14.35	C\$14.23	C\$0.12
Closing exchange rate of U.S. dollar to Canadian dollar	\$1.3242	\$1.3641	(\$0.0399)	\$1.2911	\$1.2573	\$0.0338
<b>Exchangeable interest liability</b>	<b>36,590</b>	<b>65,832</b>	<b>(29,242)</b>	<b>65,553</b>	<b>67,107</b>	<b>(1,554)</b>
Exercise of exchangeable rights by non-controlling interests			475			1,211
<b>Change in value of exchangeable interest liability</b>			<b>(28,767)</b>			<b>(344)</b>

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

Interest expense on the exchangeable interest liability decreased by \$1.3 million primarily due to the variation in distributions from the Facilities between the reporting periods.

### ***Interest Expense***

Interest expense, net of interest income, increased by \$3.7 million due to the adoption of IFRS 16, along with higher interest rates and debt outstanding versus the prior year.

### ***Foreign Currency***

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares and convertible debentures are made in Canadian dollars. Foreign currency gains increased by \$0.5 million compared to the same period in 2018, due to the relative change in foreign exchange rates.

### **Income Tax**

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

<i>Unaudited</i>	Nine Months Ended September 30,				
	<i>In thousands of U.S. dollars</i>	2019	2018	\$ Change	% Change
Current income tax expense		1,570	2,516	(946)	(37.6%)
Deferred income tax expense (recovery)		(2,947)	4,199	(7,146)	(170.2%)
<b>Income tax expense (recovery)</b>		<b>(1,377)</b>	<b>6,715</b>	<b>(8,092)</b>	<b>(120.5%)</b>

The decrease in current income tax expense versus last year was primarily due to lower taxable income from operations, partly offset by the depletion of tax loss carryforwards in the calculation of Canadian taxable income. The decrease in the deferred income tax expense versus the prior year was primarily attributable to the tax effect of the impairment charges, partly offset by the impact of the change in exchangeable interest liability.

### **Net Income (Loss) and Comprehensive Income (Loss)**

A \$34.2 million decrease in net income (loss) and comprehensive income (loss) was mainly attributable to lower income from operations, inclusive of the impairment charges, partly offset by lower income taxes and finance costs.

### **EBITDA**

EBITDA of \$8.4 million decreased by \$58.3 million from \$66.6 million recorded a year earlier, representing 2.8% of revenue compared to 21.6% a year earlier mainly driven by the impairment charges, and lower EBITDA at all Facilities with the exception of ASH and RRIMH. For a reconciliation of EBITDA to an applicable IFRS

measure, see Section 5 under “Reconciliation of net income and comprehensive income for the period to EBITDA”.

## Adjusted EBITDA

Adjusted EBITDA of \$59.9 million for the nine months ended September 30, 2019 decreased from \$66.6 million in the same period a year earlier, representing 19.8% of revenue, versus 21.6% prior year.

## 6. QUARTERLY OPERATING AND FINANCIAL RESULTS

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

<i>Unaudited</i>	2019			2018				2017
<i>In thousands of U.S. dollars, except per share amounts</i>	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Facility service revenue</b>	<b>102,106</b>	<b>100,988</b>	<b>99,095</b>	<b>123,283</b>	<b>104,207</b>	<b>106,494</b>	<b>97,618</b>	<b>111,266</b>
<b>Operating expenses</b>								
Salaries and benefits	30,690	31,563	31,317	32,186	30,060	29,615	28,902	29,673
Drugs and supplies	33,419	32,761	31,967	38,590	32,660	31,712	29,987	32,587
General and administrative expenses	16,565	17,585	16,463	20,115	18,839	21,257	18,661	16,927
Impairment of goodwill and other intangibles	22,000	29,500	-	-	-	-	-	8,400
Depreciation of property and equipment	2,782	2,586	3,472	3,551	2,780	2,737	2,704	3,022
Depreciation of right-of-use assets	2,305	2,842	1,976	-	-	-	-	-
Amortization of other intangibles	3,528	3,584	3,701	3,960	3,349	3,312	3,241	4,101
	<b>111,289</b>	<b>120,421</b>	<b>88,896</b>	<b>98,402</b>	<b>87,688</b>	<b>88,633</b>	<b>83,495</b>	<b>94,710</b>
<b>Income (loss) from operations</b>	<b>(9,183)</b>	<b>(19,433)</b>	<b>10,199</b>	<b>24,881</b>	<b>16,519</b>	<b>17,861</b>	<b>14,123</b>	<b>16,556</b>
<b>Finance costs</b>								
Change in value of convertible debentures	(675)	554	1,012	(1,974)	428	(671)	(684)	(585)
Change in value of exchangeable interest liability	(20,212)	(21,349)	12,793	279	2,316	(840)	(1,820)	(6,243)
Interest expense on exchangeable interest liability	1,515	1,796	1,940	2,012	1,922	2,143	2,515	1,968
Interest expense, net of interest income	2,741	2,950	2,725	1,778	1,841	1,465	1,374	1,213
Loss (gain) on foreign currency	141	(154)	(234)	566	(210)	223	200	127
	<b>(16,490)</b>	<b>(16,203)</b>	<b>18,236</b>	<b>2,661</b>	<b>6,297</b>	<b>2,320</b>	<b>1,585</b>	<b>(3,520)</b>
<b>Income (loss) before income taxes</b>	<b>7,307</b>	<b>(3,230)</b>	<b>(8,037)</b>	<b>22,220</b>	<b>10,222</b>	<b>15,541</b>	<b>12,538</b>	<b>20,076</b>
Income tax expense (recovery)	1,108	269	(2,754)	2,257	2,215	2,491	2,009	2,525
<b>Income (loss) for the period</b>	<b>6,199</b>	<b>(3,499)</b>	<b>(5,283)</b>	<b>19,963</b>	<b>8,007</b>	<b>13,050</b>	<b>10,529</b>	<b>17,551</b>
<b>Attributable to:</b>								
Owners of the Corporation	2,869	(2,808)	(10,285)	8,264	2,135	6,300	4,228	10,545
Non-controlling interest	3,330	(691)	5,002	11,699	5,872	6,750	6,301	7,006
Earnings (loss) per share attributable to owners of the Corporation from continuing operations:								
Basic	\$0.09	(\$0.09)	(\$0.33)	\$0.27	\$0.07	\$0.20	\$0.14	\$0.34
Fully diluted	(\$0.28)	(\$0.46)	(\$0.33)	\$0.22	\$0.07	\$0.18	\$0.12	\$0.20
<b>Reconciliation of net income and comprehensive income for the period to EBITDA and Adjusted EBITDA <sup>(1)</sup></b>								
Income (loss) and comprehensive income (loss) for the period	6,199	(3,499)	(5,283)	19,963	8,007	13,050	10,529	17,551
Income tax expense (recovery)	1,108	269	(2,754)	2,257	2,215	2,491	2,009	2,525
Finance costs	(16,490)	(16,203)	18,236	2,661	6,297	2,320	1,585	(3,520)
Depreciation of property and equipment	2,782	2,586	3,472	3,551	2,780	2,737	2,704	3,022
Depreciation of right-of-use assets	2,305	2,842	1,976	-	-	-	-	-
Amortization of other intangibles	3,528	3,584	3,701	3,960	3,349	3,312	3,241	4,101
<b>EBITDA <sup>(1)</sup></b>	<b>(568)</b>	<b>(10,421)</b>	<b>19,348</b>	<b>32,392</b>	<b>22,648</b>	<b>23,910</b>	<b>20,068</b>	<b>23,679</b>
Impairment of goodwill and other intangibles	22,000	29,500	-	-	-	-	-	8,400
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>21,432</b>	<b>19,079</b>	<b>19,348</b>	<b>32,392</b>	<b>22,648</b>	<b>23,910</b>	<b>20,068</b>	<b>32,079</b>

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

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

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

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

- The changes in operating expenses are generally consistent with fluctuations in case volumes and case mix as well as development costs related to the Corporation's strategic move into urgent and primary care at BSHS, SFSH, and ASH in an effort to build and expand care networks in the respective market areas. In addition, operating expenses have been impacted by costs related to the establishment of an accountable care organization by SFSH as well as the entering by SFSH into a management agreement for the orthopedic service line (refer to Section 12 of this MD&A under heading "Related Party Transactions").
- In addition, revenue and operating expenses have been impacted by acquisition and sale of assets in 2018.
- Due to the ongoing underperformance at certain MFC Nueterra ASCs and the continued volume and case mix challenges at UMASH, management assessed and recorded impairment in goodwill and other intangibles in 2019 and 2017.
- The changes in the recorded value of the convertible debentures have been driven by the changes in the market price of the Corporation's convertible debentures and fluctuations in the value of the Canadian dollar against the U.S. dollar.
- The changes in the recorded value of the exchangeable interest liability have been driven by (i) the changes in the number of common shares issuable for the exchangeable interest liability, which are in turn driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) the changes in the market price of the Corporation's common shares, and (iii) the fluctuations of the value of the Canadian dollar against the U.S. dollar.
- The fluctuations in interest expense on the exchangeable interest liability are due to the variation in distributions from the Facilities between the reporting periods.
- The fluctuations in foreign currency have been driven by the movements of exchange rate of the Canadian dollar in relation to U.S. dollar.
- Fluctuations in current income taxes have been driven by the changes in operating performance of the Facilities, the deductibility of corporate expenses, intercompany interest expense deductions and taxable (deductible) foreign exchange gains (losses). Fluctuations in deferred income taxes have been driven primarily by the changes in the exchangeable interest liability and Canadian cumulative tax operating loss carryforwards, along with the impact of U.S. tax reform pursuant to the U.S. federal tax law changes enacted on December 22, 2017 (Public law no. 115-97, more commonly known by the name of "*The Tax Cuts and Jobs Act*" or "TCJA").

## 7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

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

Unaudited In thousands of U.S. dollars, except as indicated otherwise		Three Months Ended September 30,		Nine Months Ended September 30,	
		2019	2018	2019	2018
		\$	\$	\$	\$
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>USD</b>	<b>19,111</b>	<b>19,865</b>	<b>58,823</b>	<b>61,934</b>
Non-controlling interest in cash flows of the Facilities <sup>(1) (11)</sup>		(9,252)	(9,470)	(24,331)	(29,884)
Interest expense on exchangeable interest liability <sup>(2)</sup>		1,515	1,922	5,251	6,580
Payment of lease liabilities <sup>(3)</sup>		(2,821)	-	(8,599)	-
Difference between straight-line rent expense and actual payments made <sup>(4)</sup>		-	259	-	694
Maintenance capital expenditures <sup>(5)</sup>		(255)	(878)	(1,640)	(2,068)
Difference between accrual-based amounts and actual cash flows related to interest and taxes <sup>(6) (11)</sup>		(1,096)	(318)	(2,885)	(1,797)
Change in non-cash operating working capital items <sup>(7)</sup>		(1,244)	(2,036)	(9,721)	(6,542)
Share-based compensation <sup>(8)</sup>		(97)	(95)	(287)	(318)
Repayment of non-revolving debt <sup>(9)</sup>		(1,854)	(2,032)	(5,009)	(4,994)
<b>CASH AVAILABLE FOR DISTRIBUTION</b>	<b>USD</b>	<b>4,007</b>	<b>7,217</b>	<b>11,602</b>	<b>23,605</b>
	<b>CDN</b>	<b>5,291</b>	<b>9,433</b>	<b>15,421</b>	<b>30,394</b>
<b>DISTRIBUTIONS</b>	<b>CDN</b>	<b>8,749</b>	<b>8,714</b>	<b>26,222</b>	<b>26,130</b>
<b>CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE <sup>(10)</sup></b>	<b>CDN</b>	<b>\$0.170</b>	<b>\$0.300</b>	<b>\$0.496</b>	<b>\$0.980</b>
<b>TOTAL DISTRIBUTIONS PER COMMON SHARE <sup>(10)</sup></b>	<b>CDN</b>	<b>\$0.281</b>	<b>\$0.281</b>	<b>\$0.844</b>	<b>\$0.840</b>
<b>PAYOUT RATIO</b>		<b>165.3%</b>	<b>92.4%</b>	<b>170.2%</b>	<b>86.0%</b>
Average exchange rate of Cdn\$ to US\$ for the period		1.3204	1.307	1.3292	1.2876
Weighted average number of common shares outstanding		31,106,259	31,004,165	31,077,702	30,978,971

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

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

<sup>(3)</sup> Payment of lease liabilities represents rent payments on principal portions of lease liabilities under IFRS 16 and is deducted in determining cash available for distribution as this is a cash item included in financing activities on cash flow statements. This is applicable to 2019 after the adoption of IFRS 16.

<sup>(4)</sup> 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, and is applicable to 2018 and prior before the adoption of IFRS 16. As a non-cash adjustment, this item is added back in the calculation of cash available for distribution.

<sup>(5)</sup> Maintenance capital expenditures at the Facility level reflect expenditures incurred to maintain the current operating capacities of the Facilities and are deducted in the calculation of cash available for distribution.

<sup>(6)</sup> 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.

<sup>(7)</sup> 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.

<sup>(8)</sup> Share-based compensation expense represents a charge included in salaries and benefits in the period which does not have a cash impact until the underlying stock options vest. As a non-cash item, this expense is added back in the calculation of cash available for distribution.

<sup>(9)</sup> 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.

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

<sup>(11)</sup> For the three months ended September 30, 2019, certain amounts have been reclassified between categories.

Cash available for distribution in the three months ended September 30, 2019 (Cdn\$5.3 million) decreased by Cdn\$4.1 million compared to the cash available for distribution the same quarter last year (Cdn\$9.4 million). On a per common share basis, cash available for distribution of Cdn\$0.17 decreased by Cdn\$0.13, or 43.3% from the same quarter last year of Cdn\$0.30. The distributions remained constant at Cdn\$0.28 resulting in a payout ratio of 165.3% as compared to a payout ratio of 92.4% in the same period in 2018.

Cash available for distribution in the nine months ended September 30, 2019 (Cdn\$15.4 million) decreased by Cdn\$15.0 million compared to the cash available for distribution the same period last year (Cdn\$30.4 million). On a per common share basis, cash available for distribution of Cdn\$0.50 decreased by Cdn\$0.48, or 49.4% from the same period last year of Cdn\$0.98. The distributions remained constant at Cdn\$0.84 resulting in a payout ratio of 170.2% as compared to a payout ratio of 86.0% in the same period in 2018.

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

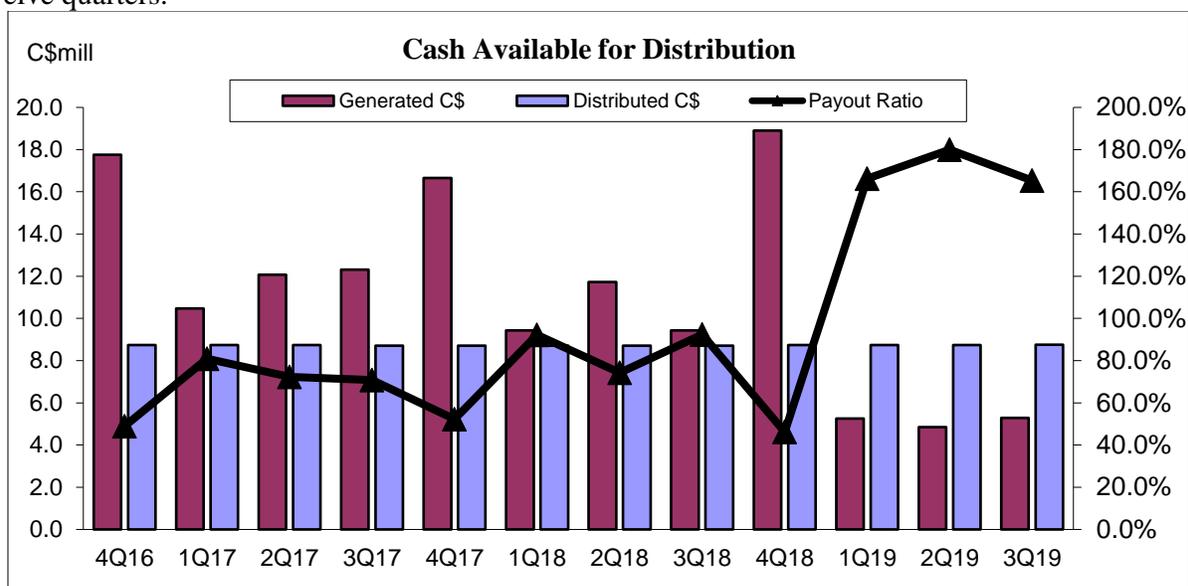
<i>Unaudited</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>In thousands of U.S. dollars</i>	\$	\$	\$	\$
<b>Cash flows from the Facilities:</b> <sup>(1)</sup>				
Income before interest expense, depreciation and amortization	22,639	24,588	66,853	73,717
Debt service costs:				
Interest	(1,527)	(1,207)	(4,536)	(3,445)
Repayment of non-revolving debt	(1,854)	(2,032)	(5,009)	(4,994)
Maintenance capital expenditures	(255)	(878)	(1,640)	(2,068)
Payment of lease liabilities	(2,772)	-	(8,430)	-
Non-cash gain	(434)	-	(1,167)	-
Difference between straight-line rent expense and actual payments made	-	259	-	694
Cash available for distribution at Facility level	15,797	20,730	46,071	63,904
Non-controlling interest in cash available for distribution at Facility level	(9,252)	(9,470)	(24,331)	(29,884)
<b>Corporation's share of the cash available for distribution at Facility level</b>	<b>6,545</b>	<b>11,260</b>	<b>21,740</b>	<b>34,020</b>
Corporate expenses	(1,623)	(1,192)	(4,916)	(4,465)
Interest expense on convertible debentures	(469)	(474)	(1,382)	(1,427)
Interest on corporate credit facility	(704)	(946)	(2,270)	(2,007)
Provision for current income taxes	258	(1,431)	(1,570)	(2,516)
<b>Cash available for distribution</b>	<b>4,007</b>	<b>7,217</b>	<b>11,602</b>	<b>23,605</b>

<sup>(1)</sup> For the three months ended September 30, 2019, certain amounts have been reclassified between categories.

Compared to the three months ended September 30, 2018, the cash available for distribution in U.S. dollars for the same period this year decreased by \$3.2 million or 44.5% mostly due to lower cash available at the Facility level.

Compared to the nine months ended September 30, 2018, the cash available for distribution in U.S. dollars for the same period this year decreased by \$12.0 million or 50.8% due mainly to lower cash available at the Facility level along with higher corporate and interest expenses.

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



## 8. OUTLOOK

*As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading “Caution Concerning Forward-Looking Statements”, this section contains forward-looking statements including with respect to the overall impact of the U.S. and local economies, ongoing changes in the healthcare industry, management strategies of the Corporation, and U.S. Tax Reform. Such statements involve known and unknown risks, uncertainties and other factors outside of management’s control, including the risk factors set forth under the heading “Risk Factors” in 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, management strategies of the Corporation, and U.S. tax reform.

### The Economy

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

### Healthcare Industry

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

- the challenge of continuing pressure on reimbursement levels from government-funded plans (Medicare, Medicaid and similar plans) and private insurance companies, combined with the increasing share of case volume that such plans represent;
- the opportunity for additional case volumes arising from ownership of, and participation in, accountable care organizations and the related challenge of payor mix shifting to Medicare plans;

- the opportunity arising from reimbursement incentives which reward healthcare entities that meet specified quality and operational goals and operate in the most efficient and cost-effective manner;
- the opportunity for an increase in the number of patients with health insurance which is expected to lead to an increase in surgical cases and a reduction in uncompensated care; and
- an increased demand for services provided by the Corporation's Facilities due to the increasing average age and life expectancy of the U.S. population, overall population growth and advances in science and technology.

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

### **Management Strategies**

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

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

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

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

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

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

## U.S. Tax Reform

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

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

## 9. LIQUIDITY AND CAPITAL RESOURCES

*As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to cash flows and future contractual payments. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth under the heading "Risk Factors" in 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, including short-term investments, are as follows:

<i>Unaudited</i> <i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Cash and cash equivalents at Facility level	11,544	11,536
Cash and cash equivalents at corporate level	26,539	25,150
<b>Cash and cash equivalents</b>	<b>38,083</b>	<b>36,686</b>
Short-term investments	10,795	10,284
<b>Cash and cash equivalents, including short-term investments</b>	<b>48,878</b>	<b>46,970</b>

### Cash Flow Activity

#### Cash Flow

<i>Unaudited</i> <i>In thousands of U.S. dollars</i>	Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
Cash provided by operating activities	58,823	61,934	(3,111)	(5.0%)
Cash used in investing activities	(6,033)	(60,230)	54,197	90.0%
Cash used in financing activities	(51,640)	(23,949)	(27,691)	(115.6%)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,150</b>	<b>(22,245)</b>	<b>23,395</b>	<b>105.2%</b>
Effect of exchange rate fluctuations on cash balances held	247	(212)	459	216.5%
Cash and cash equivalents, beginning of the period	36,686	56,029	(19,343)	(34.5%)
<b>Cash and cash equivalents, end of the period</b>	<b>38,083</b>	<b>33,572</b>	<b>4,511</b>	<b>13.4%</b>

The Corporation expects to fund operations with cash derived from operating activities. Deficiencies arising from short-term working capital requirements and capital expenditures may be financed on a short-term basis

with bank indebtedness, funds available from the corporate credit facilities, as well as lines of credit at the Facilities level, or on a permanent basis with offerings of securities of the Corporation. Negative changes in the general state of the U.S. economy could affect the Corporation's liquidity by reducing cash generated from operating activities or by limiting access to short-term financing as a result of tightening credit markets.

### ***Operating Activities and Working Capital***

Cash from operating activities in the nine months ended September 30, 2019 decreased by \$3.1 million compared to the same period in 2018, primarily due to lower income from the Facilities, partially offset by the reclassification under IFRS 16 of payments of lease liabilities to financing activities and changes in non-cash working capital.

As at September 30, 2019, the Corporation had consolidated net working capital of \$16.2 million compared to \$33.2 million as at December 31, 2018. The change was due mainly to the inclusion of the current lease liability of \$12.7 million, and a decrease in accounts receivable, partially offset by a decrease in accounts payable and accrued liabilities from timing differences. 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, 2019, accounts receivable were \$57.9 million (December 31, 2018: \$67.3 million), accounts payable and accrued liabilities totaled \$41.6 million (December 31, 2018: \$45.9 million), total assets were \$470.7 million (December 31, 2018: \$481.8 million) and total long-term liabilities, excluding exchangeable interest liability, were \$168.0 million (December 31, 2018: \$120.6 million).

### ***Investing Activities***

The \$54.2 million decrease in cash used in investing activities for the nine months ended September 30, 2019 compared to the same period in 2018 was mainly due to outflows for the prior year investments in the MFC Nueterra ASCs (\$42.8 million), lower purchased property and equipment than prior year (\$6.3 million), and proceeds from the divestment of a portion of the Corporation's interest in City Place Surgery Center (\$4.5 million).

### ***Financing Activities***

The \$27.7 million increase in cash used in financing activities for the nine months ended September 30, 2019 was mainly due to the prior year draw of \$20.0 million from the corporate credit facility to partially finance the acquisition of the MFC Nueterra ASCs, net declines in local borrowings and repayments of debt of \$6.4 million, and the reclassification from operating activities of payments of lease liabilities upon the adoption of IFRS 16 (\$8.6 million), partly offset by lower distributions to non-controlling interests (\$6.6 million).

The Facilities have available credit facilities in place, excluding capital leases, in the aggregate amount of \$25.9 million, of which \$4.6 million was drawn as at September 30, 2019. The balances available under the credit facilities, combined with cash and cash equivalents as at September 30, 2019, are available to manage the Facilities' accounts receivable, supply inventory and other short-term cash requirements.

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

The Corporation has in place a \$150.0 million line of credit with a syndicate of three Canadian chartered banks which matures on August 31, 2023 ("credit facility"). The credit facility can be used for general corporate purposes, including working capital and capital expenditures, finance of acquisitions, repayment of convertible debentures, and/or repurchase of the Corporation's common shares. As at September 30, 2019, \$68.8 million was drawn and remained outstanding for the current credit facility. The proceeds drawn from the previous credit

facility were primarily used in 2016 for the acquisition of UMASH and its underlying property through RRIMH (\$47.8 million), and the acquisition of the MFC Nueterra ASCs (\$20.0 million) in the first quarter of 2018. As at September 30, 2019, 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, 2019, the Corporation had Cdn\$41.7 million aggregate principal amount of convertible debentures outstanding while the fair market value of the convertible debentures was \$31.5 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 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.

The Corporation plans to use a combination of proceeds drawn from its \$150.0 million line of credit and internal cash balances to pay in full all outstanding amounts owed on the convertible debentures at maturity, being the principal amount plus accrued and unpaid interest through to the Maturity Date. The Corporation plans to draw the majority of the required funds from the line of credit. Following the discharge and termination of the convertible debentures, they will be de-listed from the Toronto Stock Exchange.

## 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, 2019, are as follows:

Contractual Obligations	Carrying values at September 30, 2019 \$	Future payments (including principal and interest)				
		Total \$	Less than 1 year \$	1-3 years \$	4-5 years \$	After 5 years \$
Interest payable	473	473	473	-	-	-
Dividends payable	2,202	2,202	2,202	-	-	-
Accounts payable	22,416	22,416	22,416	-	-	-
Accrued liabilities	19,160	19,160	19,160	-	-	-
Income taxes payable	2,155	2,155	2,155	-	-	-
Corporate credit facility	68,800	79,418	2,489	5,644	71,285	-
Facilities' revolving credit facilities	4,600	4,649	4,649	-	-	-
Notes payable and term loans	62,266	70,857	15,719	20,565	11,127	23,446
Lease obligation	62,382	100,295	12,705	24,236	19,146	44,208
Convertible debentures	31,523	32,673	32,673	-	-	-
<b>Total contractual obligations</b>	<b>275,977</b>	<b>334,298</b>	<b>114,641</b>	<b>50,445</b>	<b>101,558</b>	<b>67,654</b>

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

## 10. SHARE CAPITAL AND DIVIDENDS

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

The following table summarizes the outstanding number of stock options as of September 30, 2019:

<b>Optionee</b>	<b>Number of Options Held</b>	<b>Exercise Price</b>	<b>Grant Date</b>
Chief Executive Officer	450,000	C\$14.03	March 29, 2018
	350,000	C\$16.47	May 18, 2017
Chief Financial Officer	300,000	C\$12.79	June 24, 2019
Chief Development Officer	350,000	C\$21.15	September 19, 2016
Vice-President, Operations	120,000	C\$14.03	March 29, 2018
Former Chief Executive Officer	223,562	C\$17.24	May 1, 2016
Former Chief Financial Officer	221,344	C\$17.98	November 21, 2016
<b>Total number of outstanding options</b>	<b>2,014,906</b>		

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

As at September 30, 2019, the Corporation had 31,106,259 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 621,144 of its common shares is in effect from May 16, 2019 to May 15, 2020. During the nine months ended September 30, 2019 and nine months ended September 30, 2018, the Corporation did not repurchase any of its common shares.

### Dividends

Dividend declarations are determined based on periodic reviews of the Corporation’s earnings, capital expenditures and related cash flows. Such declarations take into account that the cash generated in the period is to be distributed after considering (i) debt service obligations, (ii) other expense and tax obligations, (iii) reasonable reserves for working capital and capital expenditures, and (iv) financial flexibility. The Corporation has revised the distributions to a quarterly dividend at an annual rate of Cdn\$0.28 per common share. Cash distributions declared in the period from January 1, 2019 to September 30, 2019 totaled Cdn\$0.844 per common share.

Effective November 7, 2019, the dividend payment schedule will be changed from monthly to quarterly, at an annual rate of Cdn\$0.28 per common share. This change does not affect the monthly dividend previously declared on October 22, 2019 and payable on November 15, 2019. The first dividend payment under the new payout schedule will be a prorated amount for a partial period from November 1, 2019 to December 31, 2019 and will be paid on January 15, 2020. The first full quarterly dividend will be paid April 15, 2020, subject to approval by the Board of Directors. The first two dividend payments (including the partial payment and the first

full quarterly dividend) under the new payout schedule will be payable to shareholders of record per the following critical dates:

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

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

The Corporation has a Dividend Reinvestment and Share Purchase Plan which allows shareholders resident in Canada to automatically re-invest, in a cost-effective manner, the 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, 2019 consist of cash and cash equivalents, short-term investments, 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.

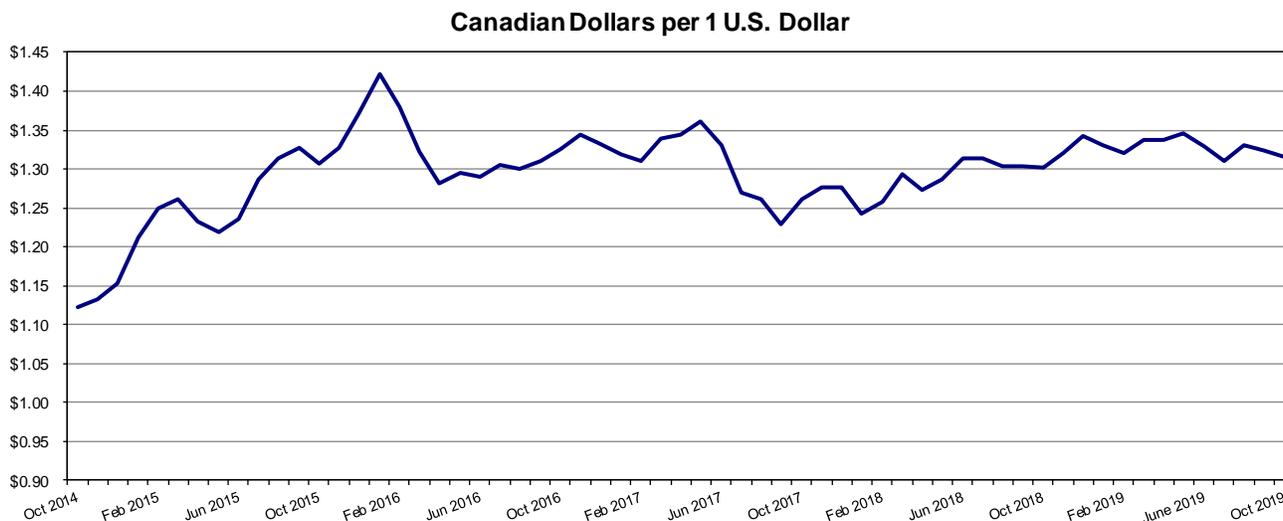
The fair values of convertible debentures and exchangeable interest liability are determined based on the closing trading price of the securities at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these 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 revenue, incur expenses and make distributions to their owners, including the Corporation, in U.S. dollars. The Corporation pays dividends to common shareholders and interest on its convertible debentures and incurs a portion of its expenses in Canadian dollars. The amounts of distributions from the Facilities to their owners, including the Corporation and non-controlling interest, are dependent on the results of the operations and cash flows generated by the Facilities in any particular period.

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

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



The Corporation may, from time to time, enter into foreign exchange forward contracts dependent upon actual or anticipated company performance and current market conditions. As of September 30, 2019, the Corporation did not hold any foreign exchange forward contracts.

### **Credit Risk**

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

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

### **Interest Rate Risk**

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

### **Share Price Risk**

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

## **Liquidity Risk**

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

## **12. RELATED PARTY TRANSACTIONS**

A member of the Corporation's board of directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the nine months ended September 30, 2019 of \$3,375 (September 30, 2018: \$3,376). As well, the director is a minority member of another ownership group that owns and leases imaging equipment to the same Facility, for which the Facility paid equipment rent for the nine months ended September 30, 2019 of \$445 (September 30, 2018: \$445).

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 nine months ended September 30, 2019, SFSH paid the South Dakota Interventional Pain Institute, LLC ("SDIPI") \$235 (September 30, 2018: \$495) for the use of a facility and related equipment. As of September 30, 2019, SFSH had a balance payable to SDIPI of \$1,016 (December 31, 2018: \$39), representing the cost of acquiring substantially all of SDIPI's assets. For the nine months ended September 30, 2019, BSHS paid Mountain Plains Real Estate Holdings, LLC \$135 for the use of a facility (September 30, 2018: \$135).

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

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

<i>In thousands of U.S. dollars</i>		<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
<b>Entity</b>	<b>Nature of services or goods received</b>	<b>2019 \$</b>	<b>2018 \$</b>	<b>2019 \$</b>	<b>2018 \$</b>
ASH	Lease of facility building, anesthesia equipment lease, and sub-lease of MRI equipment.	1,140	1,303	3,416	3,915
UMASH	Provision of physician professional services and billing services.	423	957	1,446	2,844
OSH	Provision of office and management services, lease of hospital building, and lease of office space.	392	392	1,175	1,076
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	182	221	638	746
SFSH	Provision of management services in relation to orthopedic service line at SFSH, physician professional fees, anesthesia services, physical and occupational therapy services, medical products and implants, lithotripter services, laundry services, facility and related equipment, and shared services.	2,572	2,360	7,476	6,999
MFC Nueterra ASCs	Provision of management services, physician professional services, and lease of ASC building.	516	594	1,883	1,523
<b>Total</b>		<b>5,225</b>	<b>5,827</b>	<b>16,034</b>	<b>17,103</b>

### 13. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The Corporation estimates certain amounts reflected in its financial statements based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes. Note 20.23 to the annual financial statements details critical accounting judgments and estimates used in the preparation of the Corporation's financial statements. There have been no changes in the nature of these judgments and estimates since December 31, 2018.

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

#### Revenue

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

#### Allowance for Non-Collectible Receivable Balances

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

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

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

The methodology used to test for impairment includes significant judgment, estimates, and assumptions. Impairment exists when the carrying amount of an asset or CGU exceeds its recoverable amount, which is calculated based on two approaches: 1) the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, and 2) the trailing twelve months and estimated future EBITDA multiplied by a market multiple relevant to the CGU. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses, cash flows, discount rates, and market multiples at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature, impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

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

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

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

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

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

Management performed an assessment of impairment indicators mentioned above as at September 30, 2019, and recorded an impairment charge of \$22.0 million for the MFC Nueterra ASCs CGU. As at June 30, 2019, management recorded an impairment charge of \$29.5 million for the UMASH/RRIMH CGU.

## **Taxes**

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

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be used. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax-planning strategies. If management's estimates or assumptions change from those used in current valuation, management may be required to recognize an adjustment in future periods that would increase or decrease deferred income tax asset or liability and increase or decrease income tax expense. Pursuant to the TCJA, beginning 2018, the Corporation's United States federal corporate income tax rate was reduced to 21% from its effective 2017 federal tax rate of 34%.

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

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

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

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

There have been no changes in the Corporation's ICFR during the period beginning on January 1, 2019 and ended on September 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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

## **15. RISK FACTORS**

The Corporation's annual MD&A contains a summary of risk factors pertaining to the Corporation, which should be read in conjunction with the detailed information on risk factors appearing in the Corporation's most recently filed annual information form available on SEDAR at [www.sedar.com](http://www.sedar.com). There have been no changes in the nature or the number of risk factors pertaining to the Corporation since the date of the most recently filed annual information form (March 29, 2019). 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 IFRSs which are effective for year beginning January 1, 2019.

### **IFRS 16, *Leases***

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.

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

#### Definition of a Lease

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

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

#### Lessee Accounting

The Facilities' lease assets include premises, medical equipment and office equipment. The Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Corporation recognizes right-of-use

assets and lease liabilities for most leases, except for those leases that are of low value (such as certain office equipment) and operating leases for which the lease term ends within 12 months of the date of initial application of IFRS 16. The Corporation recognizes the payments associated with these leases as an expense on a straight-line basis over the lease term.

### Significant Accounting Policies

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

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

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

### Significant Accounting Policies – Transition

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

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

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

The carrying amounts of right-of-use assets are as follows.

	Premises \$	Medical Equipment \$	Office Equipment \$	Total \$
Balance at January 1, 2019	61,447	486	1,345	63,278
Balance at September 30, 2019	53,545	1,453	3,409	58,407

## Summary of Impacts

	January 1, 2019
	\$
Right-of-use assets	63,278
Property and equipment	(881)
Deferred rent liabilities	(3,080)
Long-term debt	(905)
Lease liabilities	66,358

In relation to the leases under IFRS 16, the Corporation recognized depreciation and interest expenses, instead of operating lease expense. As a result, during the nine months ended September 30, 2019, the Corporation recognized \$5,389 of incremental depreciation expense and \$2,373 of incremental interest expense, while general and administrative expenses were lower by \$8,175 as the Corporation no longer records lease expenses in general and administrative expenses. The Corporation also recognized \$30 and \$11 in low-value leases and short-term leases, respectively.

The activities during the nine months ended September 30, 2019 in the right-of-use assets and lease liabilities are summarized as follows.

<b>Right-of-use assets</b>	<b>\$</b>
Balance at January 1, 2019	63,278
New lease agreements	4,588
Termination of lease agreements	(2,336)
Depreciation expense	(7,123)
<b>Ending balance at September 30, 2019</b>	<b>58,407</b>

<b>Lease liabilities</b>	<b>\$</b>
Balance at January 1, 2019	66,358
New lease agreements	4,588
Termination of lease agreements	(2,553)
Interest expense	2,588
Payment of lease liabilities	(8,599)
<b>Ending balance at September 30, 2019</b>	<b>62,382</b>

### **IFRIC 23, *Uncertainty over Income Tax Treatments***

In June 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* (“IFRIC 23”) in response to diversity in practice for various issuers in circumstances in which there is uncertainty in the application of the tax law. While IAS 12, *Income Taxes* provides requirements on the recognition and measurement of current and deferred tax assets and liabilities, there is diversity in the accounting for income tax treatments that have yet to be accepted by tax authorities. The Corporation has adopted IFRIC 23, with no material impacts on the consolidated financial statements.

### **17. NEW AND REVISED IFRS NOT YET ADOPTED**

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