MEDICAL FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

August 7, 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 six months ended June 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.

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1. CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

Inherent in the forward-looking information are known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements, or industry results, to differ materially from any results, performance or achievements expressed or implied by such forward-looking information. Those risks, uncertainties and other factors that could cause actual results to differ materially from the forward-looking information include, but are not limited to: ability to obtain and maintain contractual arrangements with insurers and other payors, ability to attract and retain qualified physicians, availability of qualified personnel or management, legislative and regulatory changes, capital expenditures, general state of the economy, competition in the industry, opportunity to acquire accretive businesses, integration of acquisitions, currency risk, interest rate risk, success of new service lines introductions, ability to maintain profitability and manage growth, revenue and cash flow volatility, credit risk, operating risks, performance of obligations/maintenance of client satisfaction, information technology governance and security, risk of future legal proceedings, insurance limits, income tax matters, ability to meet solvency requirements to pay dividends, leverage and restrictive covenants, unpredictability and volatility of common share price, and issuance of additional common shares diluting existing shareholders' interests, and other factors set forth under the heading "Risk Factors" in the annual MD&A and under the heading "Risk Factors" in the Corporation's most recently filed annual information form (which is available on SEDAR at www.sedar.com).

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

2. NON-IFRS FINANCIAL MEASURES

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

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

- **Cash available for distribution** is a non-IFRS financial measure of cash generated from operations during a reporting period which is available for distribution to common shareholders. Cash available for distribution is derived from cash flows from operations before changes in non-cash working capital and certain non-cash adjustments, less maintenance capital expenditures, payments on lease liabilities, interest and principal repayments on non-revolving debt obligations, and non-controlling interest in cash flows at the Facility (defined below) level. The Corporation calculates cash available for distribution in U.S. dollars and translates it into Canadian dollars using the average exchange rate applicable during the period.

- **Cash available for distribution per common share** is a non-IFRS financial measure calculated as the cash available for distribution divided by the weighted average number of common shares outstanding during the period.

- **Distributions** is a non-IFRS financial measure of cash distributed to holders of common shares, more commonly referred to as dividends.

- **Earnings before interest, taxes, depreciation and amortization** ("EBITDA") is a non-IFRS financial measure defined as income for the period before (i) finance costs, (ii) income taxes, (iii) depreciation of property and equipment, (iv) depreciation of right-of-use assets, and (v) amortization of other intangibles.

- **Adjusted EBITDA** is a non-IFRS financial measure defined as EBITDA before 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"). The Corporation's current monthly dividend on its common shares is Cdn$0.09375 per share.

The Corporation's operations are based in the United States. Through its wholly-owned U.S.-based subsidiaries, Medical Facilities America, Inc. ("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 June 30, 2019

	Arkansas Surgical Hospital ("ASH")	Unity Medical and Surgical Hospital ("UMASH")	Oklahoma Spine Hospital ("OSH")	Black Hills Surgical Hospital ("BHSH")	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 [2]
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%[2]
Non-controlling Interest	49.0%	19.2%	36.0%	45.8%	49.0%	49.0%	44-74%[2]
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[1]	29	25	26	33	-	-

[1] *Licensed for 49 beds.*

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

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information

Unaudited	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands of U.S. dollars, except per share amounts and as indicated otherwise	2019	2018	2019	2018
Facility service revenue	100,988	106,494	200,083	204,112
Operating expenses	120,421	88,633	209,317	172,128
Income (loss) from operations	(19,433)	17,861	(9,234)	31,984
Net income (loss) and comprehensive income (loss) for the period	(3,499)	13,050	(8,783)	23,579
Attributable to:				
Owners of the Corporation	(2,808)	6,300	(13,094)	10,528
Non-controlling interest [1]	(691)	6,750	4,311	13,051
Earnings (loss) per share attributable to owners of the Corporation				
Basic	($0.09)	$0.20	($0.42)	$0.34
Fully diluted	($0.46)	$0.18	($0.45)	$0.30
EBITDA [2]	(10,421)	23,910	8,927	43,978
Adjusted EBITDA [2]	19,079	23,910	38,427	43,978
Cash available for distribution [2]	C $4,872	C $11,719	C $10,127	C $20,946
Distributions [2]	C $8,739	C $8,711	C $17,473	C $17,416
Cash available for distribution per common share [2]	C $0.157	C $0.378	C $0.326	C $0.676
Distributions per common share [2]	C $0.281	C $0.281	C $0.562	C $0.562
Payout ratio [2]	179.0%	74.3%	172.4%	83.1%

[1] *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.*

[2] *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 June 30, 2019 Compared to the Three Months Ended June 30, 2018

For the three months ended June 30, 2019, revenue was $101.0 million, a decrease of 5.2% from $106.5 million for the same period in 2018, as Facilities experienced lower average revenue per case due to case mix and payor mix, as well as lower case volumes. EBITDA was negative $10.4 million or negative 10.3% of revenue compared to $23.9 million or 22.5% for the same period last year due to a $29.5 million non-cash charge for impairment of goodwill and other intangibles in UMASH (the "impairment charge"), partially offset by the reduced operating expenses from the impact of adoption IFRS 16, *Leases* ("IFRS 16"). Excluding the impact of the impairment charge, Adjusted EBITDA was $19.1 million or 18.9% of revenue. Net loss and comprehensive loss for the period was $3.5 million compared to income of $13.1 million for the same period in 2018, with the decrease mainly attributable to lower income from operations inclusive of the impairment charge, partially 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") and lower income tax expense. The Corporation generated cash available for distribution of Cdn$4.9 million for the same period, representing a decrease of Cdn$6.8 million or 58.1% from Cdn$11.7 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 179.0% for this period compared to 74.3% for the three months ended June 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 Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2018

For the six months ended June 30, 2019, revenue was $200.1 million, a decrease of 2.0% from $204.1 million for the same period in 2018 with the decline due primarily to lower average revenue per case due to case mix and payor mix, partially offset by increased case volume. EBITDA was $8.9 million or 4.5% of revenue compared to $44.0 million or 21.5% for the same period last year due to the impairment charge, partially offset by the IFRS 16 impact on operating expenses. Excluding the impact of the impairment charge, Adjusted EBITDA was $38.4 million or 4.5% of revenue. Net loss and comprehensive loss for the period was $8.8 million compared to income of $23.6 million for the same period in 2018, with the decrease mainly attributable to lower income from operations inclusive of the impairment charge, 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$10.1 million, representing a decrease of Cdn$10.8 million or 51.7% from Cdn$20.9 million for the same period in the prior year. Distributions per common share remained consistent between the years at Cdn$0.562, while the payout ratio was 172.4% for this period compared to 83.1% for the six months ended June 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 June 30, 2019

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

Unaudited	Three Months Ended June 30,			
In thousands of U.S. dollars, except per share amounts	**2019**	**2018**	**$ Change**	**% Change**
Facility service revenue	**100,988**	**106,494**	**(5,506)**	**(5.2%)**
Operating expenses				
Salaries and benefits	31,563	29,615	1,948	6.6%
Drugs and supplies	32,761	31,712	1,049	3.3%
General and administrative expenses	17,585	21,257	(3,672)	(17.3%)
Impairment of goodwill and other intangibles	29,500	-	29,500	100.0%
Depreciation of property and equipment	2,586	2,737	(151)	(5.5%)
Depreciation of right-of-use assets	2,842	-	2,842	100.0%
Amortization of other intangibles	3,584	3,312	272	8.2%
	120,421	**88,633**	**31,788**	**35.9%**
Income (loss) from operations	**(19,433)**	**17,861**	**(37,294)**	**(208.8%)**
Finance costs				
Change in value of convertible debentures	554	(671)	1,225	182.6%
Change in value of exchangeable interest liability	(21,349)	(840)	(20,509)	(2,441.5%)
Interest expense on exchangeable interest liability	1,796	2,143	(347)	(16.2%)
Interest expense, net of interest income	2,950	1,465	1,485	101.4%
Loss (gain) on foreign currency	(154)	223	(377)	(169.1%)
	(16,203)	**2,320**	**(18,523)**	**(798.4%)**
Income (loss) before income taxes	**(3,230)**	**15,541**	**(18,771)**	**(120.8%)**
Income tax expense	269	2,491	(2,222)	(89.2%)
Net income (loss) and comprehensive income (loss) for the period	**(3,499)**	**13,050**	**(16,549)**	**(126.8%)**
Attributable to:				
Owners of the Corporation	(2,808)	6,300	(9,108)	(144.6%)
Non-controlling interest	(691)	6,750	(7,441)	(110.2%)
Basic earnings (loss) per share attributable to owners of the Corporation	($0.09)	$0.20	(0.29)	(145.0%)
Fully diluted earnings (loss) per share attributable to owners of the Corporation	($0.46)	$0.18	(0.64)	(355.6%)
Reconciliation of net income and comprehensive income for the period to EBITDA(1)				
Net income (loss) and comprehensive income (loss) for the period	(3,499)	13,050	(16,549)	(126.8%)
Income tax expense	269	2,491	(2,222)	(89.2%)
Finance costs	(16,203)	2,320	(18,523)	(798.4%)
Depreciation of property and equipment	2,586	2,737	(151)	(5.5%)
Depreciation of right-of-use assets	2,842	-	2,842	100.0%
Amortization of other intangibles	3,584	3,312	272	8.2%
EBITDA(1)	**(10,421)**	**23,910**	**(34,331)**	**(143.6%)**
Impairment of goodwill and other intangibles	29,500	-	29,500	100.0%
Adjusted EBITDA(1)	**19,079**	**23,910**	**(4,831)**	**(20.2%)**

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

Revenue

Unaudited	Three Months Ended June 30,			
In thousands of U.S. dollars	**2019**	**2018**	**$ Change**	**% Change**
ASH	16,810	16,571	239	1.4%
UMASH	6,758	9,857	(3,099)	(31.4%)
OSH	17,841	17,365	476	2.7%
BHSH	22,441	22,594	(153)	(0.7%)
SFSH	26,333	28,446	(2,113)	(7.4%)
SCNC	2,021	1,801	220	12.2%
MFC Nueterra ASCs	8,784	9,575	(791)	(8.3%)
RRIMH	572	561	11	2.0%
IMD	-	955	(955)	(100.0%)
Intercompany eliminations	(572)	(1,231)	659	53.5%
Facility service revenue	**100,988**	**106,494**	**(5,506)**	**(5.2%)**

For the three months ended June 30, 2019, revenue decreased from the same period in 2018 by $5.5 million or 5.2%. The decrease was primarily attributable to the combined impact of payor and case mix ($5.5 million), as well as discontinuation of revenue from IMD net of intercompany elimination ($0.3 million), partly offset by an increase in case volumes ($0.4 million).

Total surgical cases decreased by 1.6%, as outpatient cases decreased by 2.7% and inpatient cases decreased by 0.2%, while observation cases increased by 12.7%. SCNC, OSH and UMASH had notable increases, offset by decreases at BHSH, SFSH, ASH and MFC Nueterra ASCs. In terms of payors, Blue Cross/Blue Shield cases grew by 28% while commercial payor cases declined by 20%.

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

- ASH's revenue increased mainly due to a Medicaid tax credit issued in June 2019 and case mix, partly offset by lower case volumes.
- UMASH's revenue decreased mainly due to case mix, in which outpatient cases with lower acuity increased while inpatient spine cases declined, as well as payor mix because of fewer commercial payor cases, partly offset by higher surgical case volumes which were up 4.7%.
- 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 decreased mainly due to lower case volume, partly offset by increases in urgent care volumes and case mix due to higher acuity cases.
- SFSH's revenue decreased mainly due to payor mix as commercial payors were down while Medicare cases increased, and lower case volume.
- SCNC's revenue increased mainly due to higher case volume and case mix due to higher volumes of spine and gynecology cases.
- MFC Nueterra ASCs' revenue decreased mainly due to case mix and lower case volumes at Two River Ambulatory Surgery Center.
- 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 to RRIMH's rental revenue from UMASH.

Operating Expenses

In the three months ended June 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 $31.8 million or 35.9% from the same period in the prior year, to $120.4 million. As a percentage of revenue, operating expenses increased to 119.2% from 83.2% in the same period a year earlier.

Unaudited	**Three Months Ended June 30,**					
In thousands of U.S. dollars	**2019**	**Percentage of Revenue**	**2018**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	13,680	81.4%	13,250	80.0%	430	3.2%
UMASH	8,181	121.1%	9,824	99.7%	(1,643)	(16.7%)
OSH	16,940	94.9%	15,164	87.3%	1,776	11.7%
BHSH	17,401	77.5%	16,332	72.3%	1,069	6.5%
SFSH	19,301	73.3%	19,085	67.1%	216	1.1%
SCNC	1,604	79.4%	1,531	85.0%	73	4.8%
MFC Nueterra ASCs	7,474	85.1%	7,438	77.7%	36	0.5%
RRIMH	169	29.5%	169	30.1%	-	0.0%
IMD	-	n/a	745	78.0%	(745)	(100.0%)
Corporate and intercompany eliminations	35,671	n/a	5,095	n/a	30,576	600.1%
Operating expenses	**120,421**	**119.2%**	**88,633**	**83.2%**	**31,788**	**35.9%**

Consolidated salaries and benefits increased by $1.9 million or 6.6%, primarily due to contractual separation costs related to the outgoing Chief Financial Officer ($1.1 million), higher wages for increased volumes and increased pain clinic staff at OSH ($0.8 million), increased salaries with the opening of BHSH urgent care center in Gillette, WY ($0.4 million), and wage increases ($0.4 million), partly offset by the discontinuation of expenses from IMD ($0.6 million) and lower stock based compensation at corporate ($0.3 million). As a percentage of revenue, consolidated salaries and benefits increased to 31.3% from 27.8% a year earlier.

Consolidated drugs and supplies increased by $1.0 million or 3.3%, primarily due to higher case volumes in some Facilities and case mix, resulting in more implants and urology supplies being required. As a percentage of revenue, the consolidated cost of drugs and supplies increased to 32.4% from 29.8% a year earlier.

Consolidated general and administrative expenses ("G&A") decreased by $3.7 million or 17.3%. The decrease in G&A was mainly attributable to the IFRS 16 impact from lower rent expenses ($3.3 million) and the discontinuation of expenses from IMD ($0.2 million). As a percentage of revenue, consolidated G&A decreased to 17.4% from 20.0% a year earlier.

Due to the continued volume and case mix challenges at UMASH, the Corporation recorded a non-cash goodwill and other intangibles impairment charge of $29.5 million in the period relating to the UMASH/RRIMH 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 decreased by $0.2 million or 5.5% due to disposals of certain property and equipment. As a percentage of revenue, consolidated depreciation of property and equipment remained consistent at 2.6%.

Consolidated depreciation of right-of-use assets equaled $2.8 million due to the IFRS 16 adoption, which represented 2.8% of revenue.

Consolidated amortization of other intangibles increased by $0.3 million or 8.2% 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 3.5% from 3.1% a year earlier.

Income (Loss) from Operations

Consolidated loss from operations for the three months ended June 30, 2019 of $19.4 million was $37.3 million or 208.8% lower than consolidated income from operations of $17.9 million, recorded in the same period a year earlier, representing negative 19.2% of revenue, compared to 16.8% in the same period in 2018. The decrease was mainly the result of the impairment charge and the operating income decreases at several Facilities.

Unaudited	Three Months Ended June 30,					
In thousands of U.S. dollars	**2019**	**Percentage of Revenue**	**2018**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	3,129	18.6%	3,319	20.0%	(190)	(5.7%)
UMASH	(1,423)	(21.1%)	34	0.3%	(1,457)	(4,285.3%)
OSH	901	5.1%	2,201	12.7%	(1,300)	(59.1%)
BHSH	5,040	22.5%	6,262	27.7%	(1,222)	(19.5%)
SFSH	7,032	26.7%	9,361	32.9%	(2,329)	(24.9%)
SCNC	418	20.7%	270	15.0%	148	54.8%
MFC Nueterra ASCs	1,311	14.9%	2,137	22.3%	(826)	(38.7%)
RRIMH	403	70.5%	392	69.9%	11	2.8%
IMD	-	n/a	210	22.0%	(210)	(100.0%)
Corporate	(36,244)	n/a	(6,325)	n/a	(29,919)	(473.0%)
Income (loss) from operations	**(19,433)**	**(19.2%)**	**17,861**	**16.8%**	**(37,294)**	**(208.8%)**

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:

In thousands of U.S. dollars, except as indicated otherwise	**June 30, 2019** *Unaudited*	**March 31, 2019** *Unaudited*	**Change**	**June 30, 2018** *Unaudited*	**March 31, 2018** *Unaudited*	**Change**
Face value of convertible debentures outstanding	C$41,743	C$41,743	-	C41,743	C41,743	-
Closing price of convertible debentures outstanding	C$100.99	C$101.20	(C$0.21)	C$101.27	C$101.50	(C$0.23)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3093	$1.3350	($0.0257)	$1.3137	$1.2898	$0.0239
Market value of convertible debentures outstanding	**32,198**	**31,643**	**554**	**32,179**	**32,849**	**(671)**

Change in Value of Exchangeable Interest Liability

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

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

In thousands of U.S. dollars, except as indicated otherwise	**June 30, 2019** *Unaudited*	**March 31, 2019** *Unaudited*	**Change**	**June 30, 2018** *Unaudited*	**March 31, 2018** *Unaudited*	**Change**
Number of common shares to be issued for exchangeable interest liability	6,002,516	5,953,765	48,751	6,026,972	6,001,936	25,036
Closing price of the Corporation's common shares	C$12.39	C$17.63	(C$5.24)	C$13.97	C$14.03	(C$0.06)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3093	$1.3350	($0.0257)	$1.3137	$1.2898	$0.0239
Exchangeable interest liability	**56,802**	**78,625**	**(21,823)**	**64,091**	**65,287**	**(1,196)**
Exercise of exchangeable rights by the holder of non-controlling interests			474			356
Change in value of exchangeable interest liability			**(21,349)**			**(840)**

Interest on Exchangeable Interest Liability

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

Interest Expense

Interest expense, net of interest income, increased by $1.5 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 gains 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:

Unaudited	**Three Months Ended June 30,**			
In thousands of U.S. dollars	**2019**	**2018**	**$ Change**	**% Change**
Current income tax expense	1,614	1,005	609	60.6%
Deferred income tax expense (recovery)	(1,345)	1,486	(2,831)	(190.5%)
Income tax expense	**269**	**2,491**	**(2,222)**	**(89.2%)**

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

Net Income (Loss) and Comprehensive Income (Loss)

A $16.5 million decrease in net income (loss) and comprehensive income (loss) in the three months ended June 30, 2019 from the same period in the prior year was mainly attributable to the impairment charge, lower income from operations, partly offset by lower Finance costs and income tax expense.

EBITDA

EBITDA decreased by $34.3 million during the three months ended June 30, 2019. The decrease was the result of the impairment charge and EBITDA declines at most of the Facilities. 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 $19.1 million for the three months ended June 30, 2019 decreased from $23.9 million in the same period a year earlier, representing 18.9% of revenue, versus 22.5% prior year.

Six Months Ended June 30, 2019

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

Unaudited	**Six Months Ended June 30,**			
In thousands of U.S. dollars, except per share amounts	**2019**	**2018**	**$ Change**	**% Change**
Facility service revenue	200,083	204,112	(4,029)	(2.0%)
Operating expenses				
Salaries and benefits	62,880	58,517	4,363	7.5%
Drugs and supplies	64,728	61,699	3,029	4.9%
General and administrative expenses	34,048	39,918	(5,870)	(14.7%)
Impairment of goodwill and other intangibles	29,500	-	29,500	100.0%
Depreciation of property and equipment	6,058	5,441	617	11.3%
Depreciation of right-of-use assets	4,818	-	4,818	100.0%
Amortization of other intangibles	7,285	6,553	732	11.2%
	209,317	**172,128**	**37,189**	**21.6%**
Income (loss) from operations	**(9,234)**	**31,984**	**(41,218)**	**(128.9%)**
Finance costs				
Change in value of convertible debentures	1,566	(1,354)	2,920	215.7%
Change in value of exchangeable interest liability	(8,555)	(2,660)	(5,895)	(221.6%)
Interest expense on exchangeable interest liability	3,736	4,658	(922)	(19.8%)
Interest expense, net of interest income	5,675	2,839	2,836	99.9%
Loss (gain) on foreign currency	(388)	422	(810)	(191.9%)
	2,034	**3,905**	**(1,871)**	**(47.9%)**
Income (loss) before income taxes	**(11,268)**	**28,079**	**(39,347)**	**(140.1%)**
Income tax expense (recovery)	(2,485)	4,500	(6,985)	(155.2%)
Net income (loss) and comprehensive income (loss) for the period	**(8,783)**	**23,579**	**(32,362)**	**(137.2%)**
Attributable to:				
Owners of the Corporation	(13,094)	10,528	(23,622)	(224.4%)
Non-controlling interest	4,311	13,051	(8,740)	(67.0%)
Basic earnings (loss) per share attributable to owners of the Corporation	($0.42)	$0.34	(0.76)	(223.5%)
Fully diluted earnings (loss) per share attributable to owners of the Corporation	($0.45)	$0.30	(0.75)	(250.0%)
Reconciliation of net income and comprehensive income for the period to EBITDA [(1)]				
Net income (loss) and comprehensive income (loss) for the period	(8,783)	23,579	(32,362)	(137.2%)
Income tax expense (recovery)	(2,485)	4,500	(6,985)	(155.2%)
Finance costs	2,034	3,905	(1,871)	(47.9%)
Depreciation of property and equipment	6,058	5,441	617	11.3%
Depreciation of right-of-use assets	4,818	-	4,818	100.0%
Amortization of other intangibles	7,285	6,553	732	11.2%
EBITDA[(1)]	**8,927**	**43,978**	**(35,051)**	**(79.7%)**
Impairment of goodwill and other intangibles	29,500	-	29,500	100.0%
Adjusted EBITDA[(1)]	**38,427**	**43,978**	**(5,551)**	**(12.6%)**

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

Revenue

Unaudited	Six Months Ended June 30,			
In thousands of U.S. dollars	**2019**	**2018**	**$ Change**	**% Change**
ASH	33,404	32,038	1,366	4.3%
UMASH	12,470	18,837	(6,367)	(33.8%)
OSH	34,224	32,878	1,346	4.1%
BHSH	45,723	45,271	452	1.0%
SFSH	53,685	54,828	(1,143)	(2.1%)
SCNC	3,703	3,785	(82)	(2.2%)
MFC Nueterra ASCs	16,874	15,556	1,318	8.5%
RRIMH	1,144	1,122	22	2.0%
IMD	-	2,451	(2,451)	(100.0%)
Intercompany eliminations	(1,144)	(2,654)	1,510	56.9%
Facility service revenue	**200,083**	**204,112**	**(4,029)**	**(2.0%)**

For the six months ended June 30, 2019, revenue decreased from the same period in 2018 by $4.0 million or 2.0%. The decrease was primarily attributable to the combined impact of payor and case mix ($4.9 million) and the discontinuation of revenue from IMD net of intercompany elimination ($0.9 million), partly offset by an increase in case volumes ($1.4 million) and a decrease in bad debt expenses ($0.3 million).

Total surgical cases increased by 5.8%, as outpatient cases increased by 6.8%, inpatient cases decreased by 0.2%, and observation cases increased by 15.5%. MFC Nueterra ASCs, ASH and UMASH had notable increases, partially offset by the decreases at BHSH. Surgical case volume growth over the same period last year came predominantly from Blue Cross/Blue Shield and Medicare, which grew by 45% and 5%, respectively.

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

- ASH's revenue increased mainly due to higher case volume and case mix with increases in higher acuity such as total hips and knees and lumbar cases.
- UMASH's revenue decreased mainly due to case mix, in which outpatient cases with lower acuity such as ophthalmology 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 case mix, and higher case volume as well as higher pain clinic revenues.
- 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.
- SFSH's revenue decreased due to payor mix as Medicare was up while commercial payor cases were down, partially offset by higher case volume and case mix.
- SCNC's revenue decreased mainly due to payor mix as well as lower case volume experienced in the first quarter.
- The MFC Nueterra ASCs' revenue increased due to 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 rental revenue from UMASH.

Operating Expenses

For the six months ended June 30, 2019, operating expenses increased $37.2 million or 21.6% from the same period in the prior year to $209.3 million, inclusive of the impairment charge. As a percentage of revenue, operating expenses increased to 104.6% from 84.3% in the same period a year earlier.

Unaudited	Six Months Ended June 30,					
In thousands of U.S. dollars	2019	Percentage of Revenue	2018	Percentage of Revenue	$ Change	% Change
ASH	27,129	81.2%	26,104	81.5%	1,025	3.9%
UMASH	16,022	128.5%	18,898	100.3%	(2,876)	(15.2%)
OSH	32,892	96.1%	29,244	88.9%	3,648	12.5%
BHSH	35,260	77.1%	32,837	72.5%	2,423	7.4%
SFSH	37,895	70.6%	37,718	68.8%	177	0.5%
SCNC	3,308	89.3%	3,138	82.9%	170	5.4%
MFC Nueterra ASCs	14,686	87.0%	12,505	80.4%	2,181	17.4%
RRIMH	341	29.8%	343	30.6%	(2)	(0.6%)
IMD	-	n/a	1,843	75.2%	(1,843)	(100.0%)
Corporate and intercompany eliminations	41,784	n/a	9,498	n/a	32,286	339.9%
Operating expenses	**209,317**	**104.6%**	**172,128**	**84.3%**	**37,189**	**21.6%**

Consolidated salaries and benefits increased by $4.4 million or 7.5%, primarily due to wage increases ($2.6 million), higher wages for increased case acuity and increased pain clinic staff at OSH ($1.4 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 ($0.7 million), and the extra month of operations from MFC Nueterra ASCs ($0.6 million), partly offset by the discontinuation of expenses from IMD ($1.4 million). As a percentage of revenue, consolidated salaries and benefits remained consistent at 31.4% to a year earlier.

Consolidated drugs and supplies increased by $3.0 million or 4.9%, primarily driven by case mix requiring more implants and supplies ($2.6 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 32.4% from 30.2% a year earlier.

Consolidated G&A decreased by $5.9 million or 14.7%. The decrease in G&A was mainly attributable to the IFRS 16 impact from lower rent expenses ($6.4 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 17.0% from 19.6% a year earlier.

Due to the continued volume and case mix challenges at UMASH, the Corporation recorded a non-cash goodwill and other intangibles impairment charge of $29.5 million in the period relating to the UMASH/RRIMH 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 increased by $0.6 million or 11.3%, 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 3.0% from 2.7% a year earlier.

Consolidated depreciation of right-of-use assets equaled $4.8 million due to the IFRS 16 adoption, which represented 2.4% of revenue.

Consolidated amortization of other intangibles increased by $0.7 million or 11.2% 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 six months ended June 30, 2019 of $9.2 million was $41.2 million or 128.9% lower than consolidated income from operations of $32.0 million, recorded in the same period a year earlier, representing negative 4.6% of revenue, compared to 15.7% in the same period in 2018. The decrease is mainly the result of the impairment charge, and operating income decreases throughout the Facilities, with the exception of ASH.

Unaudited	Six Months Ended June 30,					
In thousands of U.S. dollars	**2019**	**Percentage of Revenue**	**2018**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	6,275	18.8%	5,936	18.5%	339	5.7%
UMASH	(3,552)	(28.5%)	(61)	(0.3%)	(3,491)	(5,723.0%)
OSH	1,332	3.9%	3,634	11.1%	(2,302)	(63.3%)
BHSH	10,464	22.9%	12,435	27.5%	(1,971)	(15.9%)
SFSH	15,790	29.4%	17,110	31.2%	(1,320)	(7.7%)
SCNC	395	10.7%	646	17.1%	(251)	(38.9%)
MFC Nueterra ASCs	2,188	13.0%	3,052	19.6%	(864)	(28.3%)
RRIMH	802	70.1%	779	69.4%	23	3.0%
IMD	-	n/a	609	24.8%	(609)	(100.0%)
Corporate	(42,928)	n/a	(12,156)	n/a	(30,772)	(253.1%)
Income from operations	**(9,234)**	**(4.6%)**	**31,984**	**15.7%**	**(41,218)**	**(128.9%)**

Finance Costs

Change in Value of Convertible Debentures

The convertible debentures are recorded as a financial liability at fair value and re-measured at each reporting date and the changes in fair value are included in net income 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:

In thousands of U.S. dollars, except as indicated otherwise	**June 30, 2019** *Unaudited*	**December 31, 2018**	**Change**	**June 30, 2018** *Unaudited*	**December 31, 2017**	**Change**
Face value of convertible debentures outstanding	C41,743	C41,743	-	C41,743	C41,743	-
Closing price of convertible debentures outstanding	C$100.99	C$100.10	C$0.89	C$101.27	C$101.00	C$0.27
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3093	$1.3641	($0.0548)	$1.3137	$1.2573	$0.0564
Market value of convertible debentures outstanding	**32,198**	**30,632**	**1,566**	**32,179**	**33,533**	**(1,354)**

Change in Value of Exchangeable Interest Liability

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

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

In thousands of U.S. dollars, except as indicated otherwise	**June 30, 2019** *Unaudited*	**December 31, 2018**	**Change**	**June 30, 2018** *Unaudited*	**December 31, 2017**	**Change**
Number of common shares to be issued for exchangeable interest liability	6,002,516	5,970,862	31,654	6,026,972	5,929,304	97,668
Closing price of the Corporation's common shares	C$12.39	C$15.04	(C$2.65)	C$13.97	C$14.23	(C$0.26)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3093	$1.3641	($0.0548)	$1.3137	$1.2573	$0.0564
Exchangeable interest liability	**56,802**	**65,832**	**(9,030)**	**64,091**	**67,107**	**(3,016)**
Exercise of exchangeable rights by non-controlling interests			475			356
Change in value of exchangeable interest liability			**(8,555)**			**(2,660)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $0.9 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 $2.8 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 $0.8 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:

Unaudited	**Six Months Ended June 30,**			
In thousands of U.S. dollars	**2019**	**2018**	**$ Change**	**% Change**
Current income tax expense	1,828	1,085	743	68.5%
Deferred income tax expense (recovery)	(4,313)	3,415	(7,728)	(226.3%)
Income tax expense (recovery)	**(2,485)**	**4,500**	**(6,985)**	**(155.2%)**

The increase in current income tax expense versus last year was primarily due to 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 charge, partly offset by the impact of the change in exchangeable interest liability.

Net Income (Loss) and Comprehensive Income (Loss)

A $32.4 million decrease in net income and comprehensive income was mainly attributable to lower income from operations, inclusive of the impairment charge, partly offset by lower income taxes and Finance costs.

EBITDA

EBITDA of $8.9 million decreased by $35.1 million from $44.0 million recorded a year earlier, representing 4.5% of revenue compared to 21.5% a year earlier mainly driven by the impairment charge, and lower EBITDA at all Facilities with the exception of ASH. 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 $38.4 million for the six months ended June 30, 2019 decreased from $44.0 million in the same period a year earlier, representing 19.2% of revenue, versus 21.5% prior year.

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results from Continuing Operations

Unaudited	2019		2018				2017	
In thousands of U.S. dollars, except per share amounts	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Facility service revenue	**100,988**	**99,095**	**123,283**	**104,207**	**106,494**	**97,618**	**111,266**	**88,974**
Operating expenses								
Salaries and benefits	31,563	31,317	32,186	30,060	29,615	28,902	29,673	26,418
Drugs and supplies	32,761	31,967	38,590	32,660	31,712	29,987	32,587	26,942
General and administrative expenses	17,585	16,463	20,115	18,839	21,257	18,661	16,927	16,266
Impairment of goodwill and other intangibles	29,500	-	-	-	-	-	8,400	-
Depreciation of property and equipment	2,586	3,472	3,551	2,780	2,737	2,704	3,022	2,816
Depreciation of right-of-use assets	2,842	1,976	-	-	-	-	-	-
Amortization of other intangibles	3,584	3,701	3,960	3,349	3,312	3,241	4,101	4,100
	120,421	**88,896**	**98,402**	**87,688**	**88,633**	**83,495**	**94,710**	**76,542**
Income (loss) from operations	**(19,433)**	**10,199**	**24,881**	**16,519**	**17,861**	**14,123**	**16,556**	**12,432**
Finance costs								
Change in value of convertible debentures	554	1,012	(1,974)	428	(671)	(684)	(585)	1,307
Change in value of exchangeable interest liability	(21,349)	12,793	279	2,316	(840)	(1,820)	(6,243)	8,017
Interest expense on exchangeable interest liability	1,796	1,940	2,012	1,922	2,143	2,515	1,968	2,121
Interest expense, net of interest income	2,950	2,725	1,778	1,841	1,465	1,374	1,213	1,612
Loss (gain) on foreign currency	(154)	(234)	566	(210)	223	200	127	(393)
	(16,203)	**18,236**	**2,661**	**6,297**	**2,320**	**1,585**	**(3,520)**	**12,664**
Income (loss) before income taxes	**(3,230)**	**(8,037)**	**22,220**	**10,222**	**15,541**	**12,538**	**20,076**	**(232)**
Income tax expense (recovery)	269	(2,754)	2,257	2,215	2,491	2,009	2,525	(2,397)
Income (loss) for the period	**(3,499)**	**(5,283)**	**19,963**	**8,007**	**13,050**	**10,529**	**17,551**	**2,165**
Attributable to:								
Owners of the Corporation	(2,808)	(10,285)	8,264	2,135	6,300	4,228	10,545	(3,560)
Non-controlling interest	(691)	5,002	11,699	5,872	6,750	6,301	7,006	5,725
Earnings (loss) per share attributable to owners of the Corporation from continuing operations:								
Basic	($0.09)	($0.33)	$0.27	$0.07	$0.20	$0.14	$0.34	($0.11)
Fully diluted	($0.46)	($0.33)	$0.22	$0.07	$0.18	$0.12	$0.20	($0.11)
Reconciliation of net income and comprehensive income for the period to EBITDA and Adjusted EBITDA [(1)]								
Income (loss) and comprehensive income (loss) for the period	(3,499)	(5,283)	19,963	8,007	13,050	10,529	17,551	2,165
Income tax expense (recovery)	269	(2,754)	2,257	2,215	2,491	2,009	2,525	(2,397)
Finance costs	(16,203)	18,236	2,661	6,297	2,320	1,585	(3,520)	12,664
Depreciation of property and equipment	2,586	3,472	3,551	2,780	2,737	2,704	3,022	2,816
Depreciation of right-of-use assets	2,842	1,976	-	-	-	-	-	-
Amortization of other intangibles	3,584	3,701	3,960	3,349	3,312	3,241	4,101	4,100
EBITDA [(1)]	**(10,421)**	**19,348**	**32,392**	**22,648**	**23,910**	**20,068**	**23,679**	**19,348**
Impairment of goodwill and other intangibles	29,500	-	-	-	-	-	8,400	-
Adjusted EBITDA [(1)]	**19,079**	**19,348**	**32,392**	**22,648**	**23,910**	**20,068**	**32,079**	**19,348**

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

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

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

- The changes in operating expenses are generally consistent with fluctuations in case volumes and case mix as well as development costs related to the Corporation's strategic move into urgent and primary care at BHSH, SFSH, and ASH in an effort to build and expand care networks in the respective market areas. 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.

- 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:

		Three Months Ended June 30,		**Six Months Ended June 30,**	
Unaudited		**2019**	**2018**	**2019**	**2018**
In thousands of U.S. dollars, except as indicated otherwise		**$**	**$**	**$**	**$**
CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**19,084**	**19,951**	**39,711**	**42,069**
Non-controlling interest in cash flows of the Facilities (1)		(6,481)	(10,989)	(13,379)	(20,414)
Interest expense on exchangeable interest liability (2)		1,796	2,143	3,736	4,658
Payment of lease liabilities (3)		(2,917)	-	(5,778)	-
Difference between straight-line rent expense and actual payments made (4)		-	302	-	435
Maintenance capital expenditures (5)		(927)	(566)	(1,385)	(1,190)
Difference between accrual-based amounts and actual cash flows related to interest and taxes (6)		(1,272)	(325)	(3,489)	(1,479)
Change in non-cash operating working capital items (7)		(3,680)	280	(8,477)	(4,506)
Share-based compensation (8)		(96)	(94)	(190)	(223)
Repayment of non-revolving debt (9)		(1,865)	(1,776)	(3,155)	(2,962)
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**3,642**	**8,926**	**7,594**	**16,388**
	CDN	**4,872**	**11,719**	**10,127**	**20,946**
DISTRIBUTIONS	**CDN**	**8,739**	**8,711**	**17,473**	**17,416**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE (10)	**CDN**	**$0.157**	**$0.378**	**$0.326**	**$0.676**
TOTAL DISTRIBUTIONS PER COMMON SHARE (10)	**CDN**	**$0.281**	**$0.281**	**$0.562**	**$0.562**
PAYOUT RATIO		**179.0%**	**74.3%**	**172.4%**	**83.1%**
Average exchange rate of Cdn$ to US$ for the period		1.3377	1.3129	1.3336	1.2781
Weighted average number of common shares outstanding		31,071,779	30,981,810	31,063,187	30,966,165

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

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

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

(4) Difference between straight-line rent expense and actual payments made represents the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made, 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.

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

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

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

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

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

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

Cash available for distribution in the three months ended June 30, 2019 (Cdn$4.9 million) decreased by Cdn$6.8 million compared to the cash available for distribution the same quarter last year (Cdn$11.7 million). On a per common share basis, cash available for distribution of Cdn$0.16 decreased by Cdn$0.22, or 58.5% from the same quarter last year of Cdn$0.38. The distributions remained constant at Cdn$0.28 resulting in a payout ratio of 179.0% as compared to a payout ratio of 74.3% in the same period in 2018.

Cash available for distribution in the six months ended June 30, 2019 (Cdn$10.1 million) decreased by Cdn$10.8 million compared to the cash available for distribution the same period last year (Cdn$20.9 million). On a per common share basis, cash available for distribution of Cdn$0.33 decreased by Cdn$0.35, or 51.8% from the same period last year of Cdn$0.68. The distributions remained constant at Cdn$0.56 resulting in a payout ratio of 172.4% as compared to a payout ratio of 83.1% in the same period in 2018.

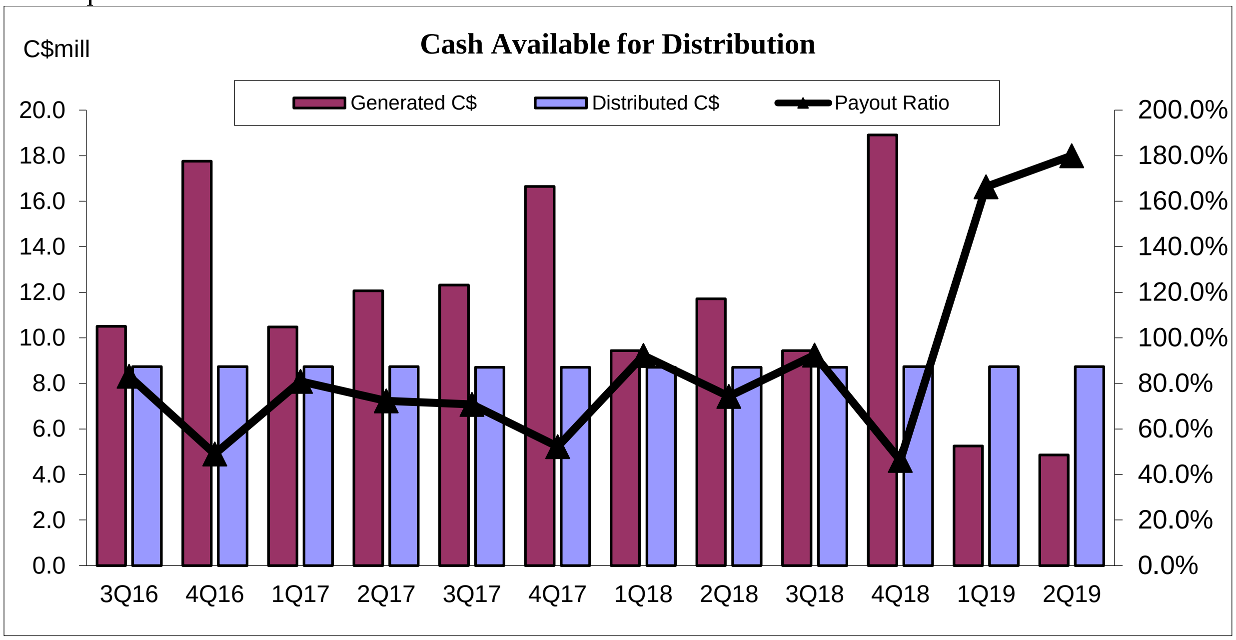
The Corporation's cash available for distribution comes solely from the Facilities. The following table provides a reconciliation of cash generated at the Facility level to the Corporation's cash available for distribution:

Unaudited	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2019	**2018**	**2019**	**2018**
In thousands of U.S. dollars	**$**	**$**	**$**	**$**
Cash flows from the Facilities:				
Income before interest expense, depreciation and amortization	22,104	26,444	44,214	49,129
Debt service costs:				
Interest	(1,640)	(1,121)	(3,009)	(2,238)
Repayment of non-revolving debt	(1,865)	(1,776)	(3,155)	(2,962)
Maintenance capital expenditures	(927)	(566)	(1,385)	(1,190)
Payment of lease liabilities	(2,857)	-	(5,658)	-
Non-cash gain	-	-	(834)	-
Difference between straight-line rent expense and actual payments made	181	302	-	435
Cash available for distribution at Facility level	14,996	23,283	30,173	43,174
Non-controlling interest in cash available for distribution at Facility level	(6,481)	(10,989)	(13,379)	(20,414)
Corporation's share of the cash available for distribution at Facility level	**8,515**	**12,294**	**16,794**	**22,760**
Corporate expenses	(2,025)	(1,306)	(4,893)	(3,273)
Interest expense on convertible debentures	(458)	(474)	(913)	(953)
Interest on corporate credit facility	(776)	(583)	(1,566)	(1,061)
Provision for current income taxes	(1,614)	(1,005)	(1,828)	(1,085)
Cash available for distribution	**3,642**	**8,926**	**7,594**	**16,388**

Compared to the three months ended June 30, 2018, the cash available for distribution in U.S. dollars for the same period this year decreased by $5.3 million or 59.2% due mostly to lower cash available at the Facility level.

Compared to the six months ended June 30, 2018, the cash available for distribution in U.S. dollars for the same period this year decreased by $8.8 million or 53.7% due mainly to lower cash available at the Facility level along with higher corporate and interest expenses and current income taxes.

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



8. OUTLOOK

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to the overall impact of the 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 a robust 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:

Unaudited *In thousands of U.S. dollars*	**June 30, 2019**	**December 31, 2018**
Cash and cash equivalents at Facility level	10,316	11,536
Cash and cash equivalents at corporate level	28,637	25,150
Cash and cash equivalents	**38,953**	**36,686**
Short-term investments	10,849	10,284
Cash and cash equivalents, including short-term investments	**49,802**	**46,970**

Cash Flow Activity

Cash Flow

Unaudited	**Six Months Ended June 30,**			
In thousands of U.S. dollars	**2019**	**2018**	**$ Change**	**% Change**
Cash provided by operating activities	39,711	42,069	(2,358)	(5.6%)
Cash used in investing activities	(1,642)	(50,569)	48,927	96.8%
Cash used in financing activities	(36,190)	(9,888)	(26,302)	(266.0%)
Increase (decrease) in cash and cash equivalents	**1,879**	**(18,388)**	**20,267**	**110.2%**
Effect of exchange rate fluctuations on cash balances held	388	(422)	810	191.9%
Cash and cash equivalents, beginning of the period	36,686	56,029	(19,343)	(34.5%)
Cash and cash equivalents, end of the period	**38,953**	**37,219**	**1,734**	**4.7%**

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 six months ended June 30, 2019 decreased by $2.4 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.

As at June 30, 2019, the Corporation had consolidated net working capital of $14.7 million compared to $33.2 million as at December 31, 2018. The change was due mainly to the inclusion of current lease liability at June 30 of $13.1 million, a decrease in accounts receivable, 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 June 30, 2019, accounts receivable were $57.7 million (December 31, 2018: $67.3 million), accounts payable and accrued liabilities totaled $41.4 million (December 31, 2018: $45.9 million), total assets were $497.3 million (December 31, 2018: $481.8 million) and total long-term liabilities, excluding exchangeable interest liability, were $166.6 million (December 31, 2018: $120.6 million).

Investing Activities

The $48.9 million decrease in cash used in investing activities for the six months ended June 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) and proceeds from the divestment of a portion of the Corporation's interest in City Place Surgery Center ($4.5 million).

Financing Activities

The $26.3 million increase in cash used in financing activities for the six months ended June 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, and the reclassification from operating activities of payments of lease liabilities upon the adoption of IFRS 16 ($5.8 million), partly offset by lower distributions to non-controlling interests ($4.3 million).

The Facilities have available credit facilities in place, excluding capital leases, in the aggregate amount of $26.8 million, of which $8.3 million was drawn as at June 30, 2019. The balances available under the credit facilities, combined with cash and cash equivalents as at June 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 June 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 June 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 June 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 $32.2 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.

Contractual Obligations

The mandatory repayments under the credit facilities and other contractual obligations and commitments including expected interest payments, on a non-discounted basis, as of June 30, 2019, are as follows:

		Future payments (including principal and interest)				
Contractual Obligations	**Carrying values at June 30, 2019 $**	**Total $**	**Less than 1 year $**	**1-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	2,227	2,227	2,227	-	-	-
Accounts payable	20,473	20,473	20,473	-	-	-
Accrued liabilities	20,952	20,952	20,952	-	-	-
Income taxes payable	966	966	966	-	-	-
Corporate credit facility	68,800	80,466	2,857	8,571	69,038	-
Facilities' revolving credit facilities	7,155	7,252	5,930	1,322	-	-
Notes payable and term loans	61,562	66,724	14,956	18,472	10,811	22,485
Finance lease obligation	61,202	103,548	13,168	24,611	19,453	46,316
Convertible debentures	32,198	33,148	33,148	-	-	-
Total contractual obligations	**275,535**	**335,756**	**114,677**	**52,976**	**99,302**	**68,801**

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

10. SHARE CAPITAL AND DIVIDENDS

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

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

Optionee	Number of Options Held	Exercise Price	Grant Date
Chief Executive Officer	450,000	C$14.03	March 29, 2018
	350,000	C$16.47	May 18, 2017
Chief Financial Officer	300,000	C$12.79	June 24, 2019
Chief Development Officer	350,000	C$21.15	September 19, 2016
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
Total number of outstanding options	**2,014,906**		

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 June 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. Previously, the Corporation's normal course issuer bid for up to 619,665 of its common shares, was in effect from May 16, 2018 to May 15, 2019. During the six months ended June 30, 2019 and six months ended June 30, 2018, the Corporation did not repurchase any of its common shares.

Dividends

Dividend declarations are determined based on monthly 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 to the maximum extent considered prudent after (i) debt service obligations, (ii) other expense and tax obligations, and (iii) reasonable reserves for working capital, and capital expenditures. The Corporation has paid consecutive dividends since its inception. The Corporation expects, subject to its monthly performance reviews as explained above and the judgment of the board of directors, to maintain the current level of dividends on its common shares. Cash distributions declared in the period from January 1, 2019 to June 30, 2019 totaled Cdn$0.562 per common share.

Dividend Reinvestment and Share Purchase Plan

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

11. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the consolidated balance sheet as at June 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.

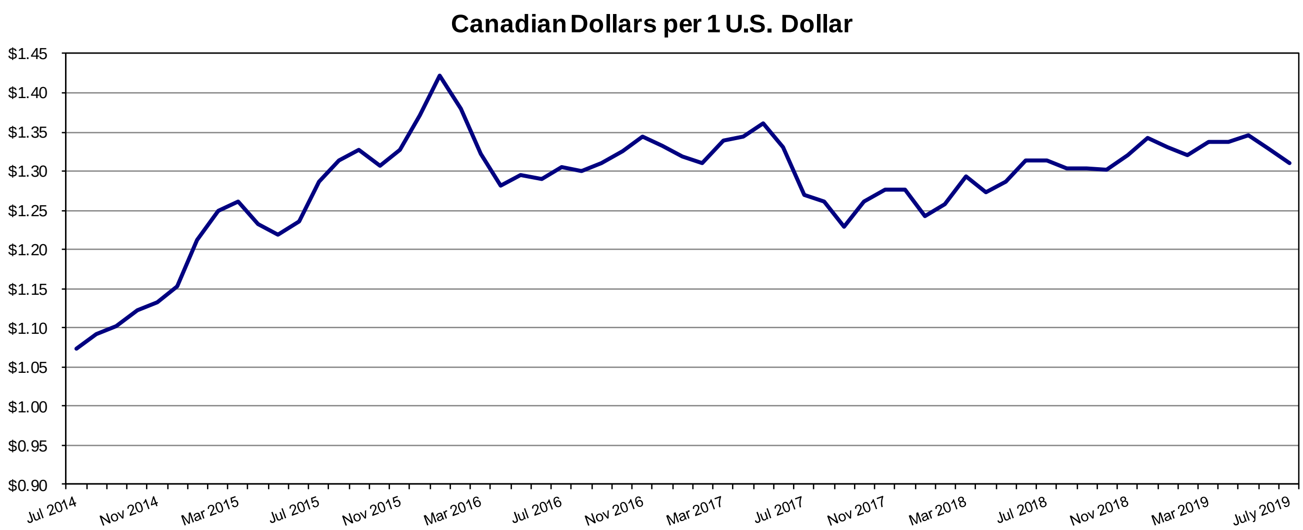
The fair values of convertible debentures and exchangeable interest liability are determined based on the closing trading price of the securities at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these 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 July 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 June 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 six months ended June 30, 2019 of $2,250 (June 30, 2018: $2,250). 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 six months ended June 30, 2019 of $296 (June 30, 2018: $296).

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 six months ended June 30, 2019, SFSH paid the South Dakota Interventional Pain Institute, LLC (“SDIPI”) $220 (June 30, 2018: $330) for the use of a facility and related equipment. As of June 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 six months ended June 30, 2019, BHSH paid Mountain Plains Real Estate Holdings, LLC $90 for the use of a facility (June 30, 2018: $90).

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:

In thousands of U.S. dollars		**Three Months Ended June 30,**		**Six Months Ended June 30,**	
Entity	**Nature of services or goods received**	**2019 $**	**2018 $**	**2019 $**	**2018 $**
ASH	Lease of facility building, anesthesia equipment lease, and sub-lease of MRI equipment.	1,138	1,306	2,276	2,613
UMASH	Provision of physician professional services and billing services.	424	944	1,023	1,887
OSH	Provision of office and management services, lease of hospital building, and lease of office space.	392	292	783	684
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	187	250	456	524
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.	2,436	2,371	4,904	4,609
MFC Nueterra ASCs	Provision of management services, physician professional services, and lease of ASC building.	645	527	1,536	929
Total		**5,222**	**5,690**	**10,978**	**11,246**

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 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 the higher of an asset's fair value less costs to sell ("FVLCS") and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses, cash flows, and discount rates at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature, impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

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

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 June 30, 2019 and 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 June 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. 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.

<u>Definition of a Lease</u>

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 June 30, 2019	55,111	1,560	1,382	58,053

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 six months ended June 30, 2019, the Corporation recognized $3,840 of incremental depreciation expense and $1,620 of incremental interest expense, while general and administrative expenses were lower by $6,399 as the Corporation no longer records lease expenses in general and administrative expenses. The Corporation also recognized $20 and $10 in low-value leases and short-term leases, respectively.

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

Right-of-use assets	**$**
Balance at January 1, 2019	63,278
New lease agreements	1,929
Termination of lease agreements	(2,336)
Depreciation expense	(4,818)
Ending balance at June 30, 2019	**58,053**

Lease liabilities	**$**
Balance at January 1, 2019	66,358
New lease agreements	1,410
Termination of lease agreements	(2,553)
Interest expense	1,765
Payment of lease liabilities	(5,778)
Ending balance at June 30, 2019	**61,202**

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.

Interim Condensed Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

For the three and six months ended June 30, 2019
(Unaudited)
(In U.S. dollars)

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MEDICAL FACILITIES CORPORATION

Interim Condensed Consolidated Balance Sheets
(In thousands of U.S. dollars)
(Unaudited)

	Note	June 30, 2019 $	December 31, 2018 $
ASSETS			
Current assets			
Cash and cash equivalents		38,953	36,686
Short-term investments		10,849	10,284
Accounts receivable		57,705	67,312
Supply inventory		8,487	8,577
Prepaid expenses and other		7,655	8,533
Income tax receivable		-	1,517
Total current assets		**123,649**	**132,909**
Non-current assets			
Deferred income tax assets		4,553	1,541
Property and equipment		109,001	108,483
Right-of-use assets	14.24	58,053	-
Goodwill	4	157,983	159,859
Other intangibles	4	42,412	77,321
Other assets	11.1	1,608	1,674
Total non-current assets		**373,610**	**348,878**
TOTAL ASSETS		**497,259**	**481,787**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		2,227	2,134
Accounts payable		20,473	23,138
Accrued liabilities		20,952	22,721
Income tax payable		966	-
Convertible debentures		32,198	30,632
Current portion of long-term debt		19,036	21,086
Current portion of lease liability		13,089	-
Total current liabilities		**108,941**	**99,711**
Non-current liabilities			
Long-term debt		49,681	50,505
Lease liability	14.24	48,113	-
Deferred income tax liability		-	1,301
Corporate credit facility		68,800	68,800
Exchangeable interest liability	8	56,802	65,832
Total non-current liabilities		**223,396**	**186,438**
Total liabilities		**332,337**	**286,149**
Equity			
Share capital	6	398,114	397,639
Contributed surplus		1,124	934
Deficit		(287,448)	(261,189)
Equity attributable to owners of the Corporation		111,790	137,384
Non-controlling interest		53,132	58,254
Total equity		**164,922**	**195,638**
TOTAL LIABILITIES AND EQUITY		**497,259**	**481,787**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

MEDICAL FACILITIES CORPORATION

Interim Condensed Consolidated Statements of Changes in Equity
(In thousands of U.S. dollars)
(Unaudited)

		Attributable to Owners of the Corporation				Non-controlling Interest	Total Equity
		Share Capital $	**Contributed Surplus** $	**Retained Earnings/ (Deficit)** $	**Total** $	$	$
2019							
Balance at January 1, 2019		397,639	934	(261,189)	137,384	58,254	195,638
Net income (loss) and comprehensive income (loss) for the period		-	-	(13,094)	(13,094)	4,311	(8,783)
Share-based compensation	13	-	190	-	190	-	190
Dividends to owners of the Corporation		-	-	(13,165)	(13,165)	-	(13,165)
Distributions to non-controlling interest		-	-	-	-	(14,127)	(14,127)
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		475	-	-	475	-	475
Acquisition of additional interest in Unity Medical and Surgical Hospital		-	-	-	-	(154)	(154)
Contributions by Black Hills Surgical Hospital, LLP non-controlling interest		-	-	-	-	305	305
Sale of interest in City Place Surgery Center to non-controlling interest	1	-	-	-	-	4,543	4,543
Balance at June 30, 2019		**398,114**	**1,124**	**(287,448)**	**111,790**	**53,132**	**164,922**
2018							
Balance at January 1, 2018		396,428	522	(255,284)	141,666	58,862	200,528
Net income and comprehensive income for the period		-	-	10,528	10,528	13,051	23,579
Share-based compensation	13	-	223	-	223	-	223
Dividends to owners of the Corporation		-	-	(13,584)	(13,584)	-	(13,584)
Distributions to non-controlling interest		-	-	-	-	(18,456)	(18,456)
Acquisition of MFC Nueterra ASCs		-	-	-	-	2,888	2,888
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		356	-	-	356	-	356
Balance at June 30, 2018		**396,784**	**745**	**(258,340)**	**139,189**	**56,345**	**195,534**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

MEDICAL FACILITIES CORPORATION

Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(In thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Note	Three Months Ended June 30, 2019 $	Three Months Ended June 30, 2018 $	Six Months Ended June 30, 2019 $	Six Months Ended June 30, 2018 $
Facility service revenue		**100,988**	**106,494**	**200,083**	**204,112**
Operating expenses					
Salaries and benefits		31,563	29,615	62,880	58,517
Drugs and supplies		32,761	31,712	64,728	61,699
General and administrative expenses		17,585	21,257	34,048	39,918
Impairment of goodwill and other intangibles	4	29,500	-	29,500	-
Depreciation of property and equipment		2,586	2,737	6,058	5,441
Depreciation of right-of-use assets		2,842	-	4,818	-
Amortization of other intangibles		3,584	3,312	7,285	6,553
		120,421	**88,633**	**209,317**	**172,128**
Income (loss) from operations		**(19,433)**	**17,861**	**(9,234)**	**31,984**
Finance costs					
Change in value of convertible debentures		554	(671)	1,566	(1,354)
Change in value of exchangeable interest liability		(21,349)	(840)	(8,555)	(2,660)
Interest expense on exchangeable interest liability		1,796	2,143	3,736	4,658
Interest expense, net of interest income	10	2,950	1,465	5,675	2,839
Loss (gain) on foreign currency		(154)	223	(388)	422
		(16,203)	**2,320**	**2,034**	**3,905**
Income (loss) before income taxes		**(3,230)**	**15,541**	**(11,268)**	**28,079**
Income tax expense (recovery)	9	269	2,491	(2,485)	4,500
Net income (loss) and comprehensive income (loss) for the period		**(3,499)**	**13,050**	**(8,783)**	**23,579**
Attributable to:					
Owners of the Corporation		(2,808)	6,300	(13,094)	10,528
Non-controlling interest		(691)	6,750	4,311	13,051
		(3,499)	**13,050**	**(8,783)**	**23,579**
Earnings (loss) per share					
Basic	5	$ (0.09)	$ 0.20	$ (0.42)	$ 0.34
Fully diluted	5	$ (0.46)	$ 0.18	$ (0.45)	$ 0.30

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

MEDICAL FACILITIES CORPORATION

Interim Condensed Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)
(Unaudited)

	Note	Six Months Ended June 30, 2019 $	2018 $
Cash flows from operating activities			
Net income (loss) for the period		(8,783)	23,579
Adjustments for:			
Depreciation of property and equipment		6,058	5,441
Depreciation of right-of-use assets		4,818	-
Amortization of other intangibles		7,285	6,553
Impairment of goodwill and other intangibles	4	29,500	-
Share of equity income (loss) in associates	11.1	101	(65)
Change in value of convertible debentures		1,566	(1,354)
Change in value of exchangeable interest liability		(8,555)	(2,660)
Loss (gain) on foreign currency		(388)	422
Income tax expense (recovery)	9	(2,485)	4,500
Share-based compensation	13	190	223
Other non-cash gain		(834)	-
Loss on disposal of assets of Integrated Medical Delivery, LLC		-	530
Interest expense, net of interest income		9,411	7,497
		37,884	44,666
Changes in non-cash operating working capital	7	9,577	4,506
		47,461	49,172
Interest paid, net of received		(9,933)	(7,497)
Income and withholding taxes received		2,183	394
Net cash provided by operating activities		**39,711**	**42,069**
Cash flows from investing activities			
Purchase of property and equipment		(5,216)	(10,306)
Business combinations (net of cash assumed)		-	(42,760)
Sale of interest in City Place Surgery Center to non-controlling interest	1	4,543	-
Investment in St. Luke's Surgery Center of Chesterfield, LLC	1	(500)	-
Investment in Unity Medical and Surgical Hospital		(154)	-
Investment in Black Hills Surgical Hospital, LLP by non-controlling interest		305	-
Proceeds from disposal of assets		(55)	3,100
Investment in short-term bank investments		(565)	(603)
Net cash used in investing activities		**(1,642)**	**(50,569)**
Cash flows from financing activities			
Net proceeds from (repayments of) revolving credit facilities and issuance of notes payable		(119)	25,197
Repayments of notes payable at the Facilities		(3,155)	(2,962)
Payments of lease liabilities		(5,778)	-
Distributions, return of capital and loan receivable from an associate		61	33
Distributions to non-controlling interest		(14,127)	(18,456)
Dividends paid		(13,072)	(13,700)
Net cash used in financing activities		**(36,190)**	**(9,888)**
Increase (decrease) in cash and cash equivalents		**1,879**	**(18,388)**
Effect of exchange rate fluctuations on cash balances held		388	(422)
Cash and cash equivalents, beginning of the period		36,686	56,029
Cash and cash equivalents, end of the period		**38,953**	**37,219**
Non-cash transactions:			
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		475	356

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

1. REPORTING ENTITY

Medical Facilities Corporation (the “Corporation”) is a British Columbia corporation. The address of the Corporation’s head office is 45 St. Clair Avenue West, Suite 200, Toronto, Ontario, Canada. The common shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbol “DR”.

The Corporation’s operations are based in the United States. Through its wholly-owned subsidiaries, the Corporation owns controlling and non-controlling interests in five specialty hospitals and eight ambulatory surgery centers (the “Facilities”). The Corporation also owns a 92% controlling interest in RRI Mishawaka Hospital, LP, an entity which owns the land and building for one of its facilities.

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 facility through its operating agreement by having continued representation on the governing board and majority voting rights, and consolidates its results in consolidated financial statements.

The Corporation’s ownership interest in, and the location of, its operating subsidiaries are as follows:

		Ownership Interest June 30,	
Subsidiary	**Location**	**2019**	**2018**
Arkansas Surgical Hospital, LLC (“ASH”)	North Little Rock, Arkansas	51.0%	51.0%
Unity Medical and Surgical Hospital (“UMASH”)	Mishawaka, Indiana	80.8%	62.0%
Oklahoma Spine Hospital, LLC (“OSH”)	Oklahoma City, Oklahoma	64.0%	61.0%
Black Hills Surgical Hospital, LLP (“BHSH”)	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP (“SFSH”)	Sioux Falls, South Dakota	51.0%	51.0%
The Surgery Center of Newport Coast (“SCNC”)	Newport Beach, California	51.0%	51.0%
MFC Nueterra ASCs(1)	Various	47.7%	52.6%

(1) The Corporation has an average ownership interest of 47.7% based on values as at the reporting date. The seven ambulatory surgery centers are situated in Arkansas, Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania.

2. STATEMENT OF COMPLIANCE

These unaudited interim condensed consolidated financial statements (“consolidated financial statements”) have been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”) using the accounting policies as described in the audited consolidated financial statements for the year ended December 31, 2018 and presented in note 14 to these consolidated financial statements.

These consolidated financial statements were approved for issue by the Corporation’s Board of Directors on August 7, 2019.

3. BASIS OF PREPARATION

These consolidated financial statements do not contain all of the disclosures that are required in annual financial statements prepared under International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2018, which include information necessary or useful to understand the Corporation's business and financial statement presentation.

Income from operations for the interim period is not necessarily indicative of the results for the full year. Facility service 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.

The Corporation's consolidated financial statements are reported in U.S. dollars which is its functional and presentation currency. All financial information presented in U.S. dollars has been rounded to the nearest thousand, unless otherwise indicated.

4. IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLES

Following a review of the operating results of the UMASH/RRIMH cash-generating unit ("CGU"), the Corporation's impairment testing concluded that the carrying value of goodwill and other intangibles exceeded the recoverable amount. As a result, the Corporation recorded an impairment loss of $29,500 in the three months ended June 30, 2019, of which $1,876 is related to goodwill and $27,624 to other intangibles. Of the total charge, $23,840 pertained to the Corporation's controlling interest, while $5,660 related to the 19% non-controlling interest owners.

Management calculated the recoverable amount of the UMASH/RRIMH CGU by determining the fair value less costs of disposal ("FVLCD"). Management has estimated cost to dispose to be 1% of the fair value of the CGU, based on recent market data.

The FVLCD of the UMASH/RRIMH CGU was determined by discounting the future cash flows generated from continuing use. The inputs used in the calculation are level 3 inputs under IFRS 13, *Fair Value Measurement*. Cash flows for fiscal 2019 to fiscal 2023 were projected based on past experience, actual operating results normalized for non-routine items, and budgeted projections. Projected cash flows were discounted using a post-tax rate of 15.0%. The discount rate was estimated based on a weighted average cost of capital which is based on a risk-free rate, plus various risk premiums including a size premium and a specific Corporation risk premium.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

5. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share attributable to owners of the Corporation are calculated as follows:

		Three Months Ended June 30,	
		2019	**2018**
Net income (loss) for the period attributable to owners of the Corporation	$	(2,808)	6,300
Divided by weighted average number of common shares outstanding for the period		31,071,779	30,981,810
Basic earnings (loss) per share attributable to owners of the Corporation	**$**	**(0.09)**	**0.20**

		Six Months Ended June 30,	
		2019	**2018**
Net income (loss) for the period attributable to owners of the Corporation	$	(13,094)	10,528
Divided by weighted average number of common shares outstanding for the period		31,063,187	30,966,165
Basic earnings (loss) per share attributable to owners of the Corporation	**$**	**(0.42)**	**0.34**

Fully diluted earnings (loss) per share attributable to owners of the Corporation are calculated as follows:

		Three Months Ended June 30,	
		2019	**2018**
Net income (loss) for the period attributable to owners of the Corporation	$	(2,808)	6,300
Change in value of exchangeable interest liability (tax effected)		(15,691)	(617)
Interest expense on exchangeable interest liability (tax effected)		1,365	1,629
Change in value of convertible debentures (tax effected)		-	(493)
Interest expense on convertible debentures (tax effected)		-	349
Modified net income (loss) for the period attributable to owners of the Corporation		(17,134)	7,168
Weighted average number of common shares:			
Outstanding for the period		31,071,779	30,981,810
Deemed to be issued on the conversion of the outstanding exchangeable interest liability		5,978,141	6,014,454
Deemed to be issued on the conversion of the outstanding convertible debentures		-	2,184,353
Weighted average number of common shares[1]		37,049,920	39,180,617
Fully diluted earnings (loss) per share	**$**	**(0.46)**	**0.18**

[1] For the periods ended June 30, 2019 and June 30, 2018, the impact of share-based compensation was excluded from the dilutive weighted average number of common shares calculation because they are not applicable based on the share price prevailing at June 30, 2019 and June 30, 2018.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

5. EARNINGS (LOSS) PER SHARE (Continued)

		Six Months Ended June 30,	
		2019	2018
Net income (loss) for the period attributable to owners of the Corporation	$	(13,094)	10,528
Change in value of exchangeable interest liability (tax effected)		(6,288)	(1,955)
Interest expense on exchangeable interest liability (tax effected)		2,839	3,540
Change in value of convertible debentures (tax effected)		-	(995)
Interest expense on convertible debentures (tax effected)		-	701
Modified net income (loss) for the period attributable to owners of the Corporation	$	(16,543)	11,819
Weighted average number of common shares:			
Outstanding for the period		31,063,187	30,966,165
Deemed to be issued on the conversion of the outstanding exchangeable interest liability		5,986,689	5,978,138
Deemed to be issued on the conversion of the outstanding convertible debentures		-	2,184,353
Weighted average number of common shares(1)(2)		37,049,876	39,128,656
Fully diluted earnings (loss) per share	**$**	**(0.45)**	**0.30**

(1) For the period ended June 30, 2019, the impacts of convertible debentures and share-based compensation were excluded from the dilutive weighted average number of common shares calculation because they are not applicable based on the share price prevailing at June 30, 2019.

(2) For the period ended June 30, 2018, the impact of share-based compensation was excluded from the dilutive weighted average number of common shares calculation because they are not applicable based on the share price prevailing at June 30, 2018.

6. NORMAL COURSE ISSUER BIDS

The Corporation’s current normal course issuer bid for up to 621,144 of its common shares, is in effect from May 16, 2019 to May 15, 2020. Previously, the Corporation’s normal course issuer bid for up to 619,665 of its common shares, was in effect from May 16, 2018 to May 15, 2019. During the six months ended June 30, 2019 and the six months ended June 30, 2018, the Corporation did not purchase any of its common shares.

7. NET CHANGES IN NON-CASH WORKING CAPITAL

The net changes in non-cash working capital included in the statement of cash flows, exclusive of the IFRS 16, *Leases* impact, consist of the following:

	Six Months Ended June 30,	
	2019 $	2018 $
Accounts receivable	9,607	8,218
Supply inventory	90	(343)
Prepaid expenses and other	1,235	(1,094)
Accounts payable	(2,665)	(1,928)
Accrued liabilities	1,310	(347)
Net changes in non-cash working capital	**9,577**	**4,506**

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

8. FINANCIAL INSTRUMENTS

8.1 Fair values and classification of financial instruments

The fair values of the convertible debentures and exchangeable interest liability are determined based on the closing trading price of the debentures and the common shares at each reporting period. The fair values of notes payable and revolving credit facilities at the Facilities' level approximate their book values as the interest rates are similar to prevailing market rates. The fair values of all other financial instruments of the Corporation, due to the short-term nature of these instruments, approximate their book values.

The following table presents the carrying values and classification of the Corporation's financial instruments as at June 30, 2019 and December 31, 2018:

	June 30, 2019 $	December 31, 2018 $
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	38,953	36,686
Short-term investments	10,849	10,284
Amortized cost		
Accounts receivable	57,705	67,312
Financial liabilities		
Fair value through profit or loss		
Convertible debentures	32,198	30,632
Exchangeable interest liability	56,802	65,832
Amortized cost		
Dividends payable	2,227	2,134
Accounts payable	20,473	23,138
Accrued liabilities	20,952	22,721
Corporate credit facility	68,800	68,800
Long-term debt	68,717	71,591

The financial instruments of the Corporation that are recorded at fair value have been classified into levels using a fair value hierarchy. The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at fair value as of June 30, 2019 and December 31, 2018. It does not include fair value information for financial instruments not measured at fair value and which are short-term in nature.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

8. FINANCIAL INSTRUMENTS (Continued)

	June 30, 2019			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets				
Cash and cash equivalents	38,953	-	-	38,953
Short-term investments	10,849	-	-	10,849
Financial liabilities				
Convertible debentures	32,198	-	-	32,198
Exchangeable interest liability	-	56,802	-	56,802
Corporate credit facility	-	68,800	-	68,800
Long-term debt	-	68,717	-	68,717
Total	**82,000**	**194,319**	**-**	**276,319**

	December 31, 2018			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets				
Cash and cash equivalents	36,686	-	-	36,686
Short-term investments	10,284	-	-	10,284
Financial liabilities				
Convertible debentures	30,632	-	-	30,632
Exchangeable interest liability	-	65,832	-	65,832
Corporate credit facility	-	68,800	-	68,800
Long-term debt	-	71,591	-	71,591
Total	**77,602**	**206,223**	**-**	**283,825**

8.2 Measurement of fair values

The following is the valuation technique used in measuring Level 2 fair values (the Corporation does not have any Level 3 fair values).

Financial Instrument	**Valuation Technique**
Exchangeable interest liability	*Market comparison technique:* The number of the Corporation’s common shares to issue is based on the contractual agreements with the holders of non-controlling interest that have exchange agreements with the Corporation and take into account the distributions to the non-controlling interest over the prior twelve months. The liability is valued based on the market price of the Corporation’s common shares converted to the reporting currency as of the reporting date.
Corporate credit facility	*Market comparison technique:* Interest rates are based on the lending agreements with various banks of corporate credit facility, and they are prime rates adjusted for the Corporation’s risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals.
Long-term debt	*Market comparison technique:* Interest rates are based on the lending agreements with various banks and creditors of long-term debt, and they are prime or LIBOR rates adjusted for the Corporation’s risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals and interest payments discounted to present value.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

9. INCOME TAXES

The U.S. tax return for the Corporation is prepared on a consolidated basis for U.S. entities and includes balances and amounts attributable to these entities. The *Tax Cuts and Jobs Act*, which took effect January 1, 2018 for the Corporation, reduced the United States federal corporate income tax rate to 21%. This rate has been used to prepare the Corporation's current and deferred U.S. tax balances.

The Canadian income tax return for the Corporation is prepared on a stand-alone basis and includes non-consolidated balances attributable to the Canadian entity only.

Income taxes reported in these consolidated financial statements are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Provision for Income Taxes	**2019 $**	**2018 $**	**2019 $**	**2018 $**
Current	1,614	1,005	1,828	1,085
Deferred	(1,345)	1,486	(4,313)	3,415
Total income tax expense (recovery)	**269**	**2,491**	**(2,485)**	**4,500**

10. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income, included in the Interim Condensed Consolidated Statements of Income and Comprehensive Income consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Interest expense at Facilities' level	923	498	1,438	972
Interest expense on convertible debentures	457	474	913	953
Interest expense at corporate level	776	583	1,580	1,061
Interest expense on lease liability	802	-	1,765	-
Amortization of available credit facility stand-by fees	124	24	247	58
Interest income at Facilities' level	(10)	(34)	(24)	(42)
Interest income at corporate level	(122)	(80)	(244)	(163)
Interest expense, net of interest income	**2,950**	**1,465**	**5,675**	**2,839**

11. RELATED PARTY TRANSACTIONS AND BALANCES

11.1 Equity accounted investments

The Corporation owns a 54.22% equity interest in Mountain Plains Real Estate Holdings, LLC (“MPREH”), an entity over which it has significant influence. The Corporation uses the equity method to account for this investment, which was valued at $715 as of June 30, 2019 (December 31, 2018: $715).

The Corporation owns a 32.0% equity interest in South Dakota Interventional Pain Institute, LLC (“SDIPI”). The Corporation has significant influence over the associate because of its equity position and its representation on the board of the associate. The Corporation uses the equity method to account for this investment. The investment in and loan receivable from the associate as at June 30, 2019 were $56 and $(4), respectively (December 31, 2018: $590 and $28, respectively). During the quarter ended June 30, 2019, SFSH purchased substantially all of the net assets of SDIPI, including real estate and loans. The Corporation’s ownership interest in SDIPI did not change.

The Corporation has a 0.35% ownership interest in an entity that holds an indirect interest in BHSH for a total investment of $341 (December 31, 2018: $341), for which the investment is accounted for at cost in the consolidated financial statements.

Together, the three investments comprise the ‘Other assets’ on the Interim Condensed Consolidated Balance Sheets.

11.2 Related party transactions

A member of the Corporation’s Board of Directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the six months ended June 30, 2019 of $2,250 (June 30, 2018: $2,250). 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 six months ended June 30, 2019 of $296 (June 30, 2018: $296).

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 six months ended June 30, 2019, SFSH paid SDIPI $220 for the use of a facility and related equipment (June 30, 2018: $330). As of June 30, 2019, SFSH had a balance payable to SDIPI of $1,016, representing the cost of acquiring substantially all of SDIPI’s assets (December 31, 2018: $39). For the six months ended June 30, 2019, BHSH paid MPREH $90 for the use of a facility (June 30, 2018: $90).

11. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

11.3 Other transactions

Certain of the physicians, who indirectly own the non-controlling interest in each of the Facilities, routinely provide professional services directly to patients utilizing the services of the Facilities and reimburse the Facilities for the space and staff utilized. Also, certain of the physicians serve on the boards of management of the Facilities and two such individuals perform the duties of Medical Director at the respective Facilities and are compensated in recognition of their contribution to the Facilities. Also, a physician with a non-controlling interest in SFSH is its Chief Executive Officer and a Chief Medical Officer of the Corporation.

12. COMMITMENTS AND CONTINGENCIES

12.1 Commitments

In the normal course of operations, the Facilities lease certain equipment under non-cancellable long-term leases and enter into various commitments with third parties. In addition, certain of the Facilities lease their facility space from related and non-related parties.

12.2 Contingencies

In the normal course of business, the Facilities are, from time to time, subject to allegations that may result in litigation. Certain allegations may not be covered by the Facilities' commercial and liability insurance. The Facilities evaluate such allegations by conducting investigations to determine the validity of each potential claim. Based on the advice of the legal counsel, management records an estimate of the amount of the ultimate expected loss for each of these matters. Events could occur that would cause the estimate of the ultimate loss to differ materially from the amounts recorded.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

13. SHARE-BASED COMPENSATION

13.1 Stock Options

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

Optionee	Number of Options Held	Exercise Price	Grant Date
Chief Executive Officer	450,000	C$14.03	March 29, 2018
	350,000	C$16.47	May 18, 2017
Chief Financial Officer	300,000	C$12.79	June 24, 2019
Chief Development Officer	350,000	C$21.15	September 19, 2016
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
Total number of outstanding options	**2,014,906**		

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 blackout exceptions. As of June 30, 2019, 444,906 of the Options relating to Former Chief Executive Officer and Former Chief Financial Officer are vested.

During the six months ended June 30, 2019, the Corporation recognized $190 (June 30, 2018: $223) relating to the Options in salaries and benefits expense. On June 24, 2019, stock options to acquire 300,000 common shares of the Corporation were granted to its Chief Financial Officer. On June 30, 2019, stock options to acquire 203,656 common shares that were previously granted in 2016 to Former Chief Financial Officer were forfeited.

The grant date fair values of the Options were measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at the grant date of the share-based compensation plan are as follows:

	Q2 2019 Grants Issued	Q1 2018 Grants Issued	Q2 2017 Grants Issued	Q4 2016 Grants Issued	Q3 2016 Grants Issued	Q2 2016 Grants Issued
Fair value of Options, grants and assumptions						
Fair value at grant date	C$ 1.20	C$ 1.33	C$ 1.27	C$ 1.41	C$ 2.00	C$ 1.33
Share price at grant date	C$12.90	C$14.03	C$16.68	C$18.19	C$21.57	C$17.01
Exercise price	C$12.79	C$14.03	C$16.47	C$17.98	C$21.15	C$17.24
Expected volatility (weighted average volatility)	29.77%	27.76%	22.77%	21.77%	21.95%	23.60%
Option life (expected weighted average life)	5 years	5 years	5 years	5 years	5 years	5 years
Expected dividends	8.72%	8.02%	6.74%	6.18%	5.22%	6.61%
Risk-free rate	1.34%	1.96%	0.99%	0.99%	0.73%	1.03%

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

13. SHARE-BASED COMPENSATION (Continued)

13.2 Deferred Share Units

Compensation for directors includes a deferred share unit ("DSU") component, for which grants based on the value of the Corporation's common shares are made quarterly. The DSUs accrue dividends, vest immediately and can be redeemed only when a participant ceases to serve as a director of the Corporation. The participant's entitlement in respect of the DSUs then held will be settled in cash based on a formula tied to the value of the Corporation's common shares at the relevant time. For the six months ended June 30, 2019, director compensation included DSU grants of $274 (June 30, 2018: $224), while the change in market value of outstanding DSUs for the same period was a recovery of $142 (June 30, 2018: expense of $62).

The following table summarizes changes in the DSUs for six months ended June 30, 2019:

	2019
Opening balance of DSUs at January 1, 2019	151,211
DSUs granted on director fees	25,009
DSUs paid out	(18,335)
DSUs granted on dividend reinvestment	5,204
Total number of DSUs at June 30, 2019	**163,089**

13.3 Restricted Share Units

Compensation for executive officers of the Corporation includes a restricted share unit ("RSU") component, for which grants based on the value of the Corporation's common shares were made annually up to 2018 and from time to time. Effective 2018, annual RSU grants were replaced by annual performance share unit ("PSU") grants. The RSU grants vest over three years, participate in the Corporation's monthly dividends, and settle in cash. To date, grants were made on November 21, 2016 for 14,920 RSUs, July 1, 2017 for 21,804 RSUs, and on May 10, 2018 for 17,040 RSUs. The value of the expense and liability associated with the RSUs is determined based on the Corporation's stock price at the end of each reporting period. For the six months ended June 30, 2019, salaries and benefits included an RSU expense of $96 (June 30, 2018: expense of $119). As at June 30, 2019, the liability for RSUs was $198.

The following table summarizes changes in the RSUs for the six months ended June 30, 2019:

	2019
Opening balance of RSUs at January 1, 2019	40,070
RSUs vested and settled	(10,092)
RSUs forfeited	(3,239)
RSUs granted on dividend reinvestment	1,510
Total number of RSUs at June 30, 2019	**28,249**

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

13. SHARE-BASED COMPENSATION (Continued)

13.4 Performance Share Units

The PSU grants vest at the end of three years, participate in the Corporation's monthly dividends and settle in cash, subject to achievement of performance objectives set at the time of the grant. To date, a grant was made on March 29, 2018 for 59,003 PSUs, and on March 29, 2019 for 51,077 PSUs. The value of the expense and liability associated with the PSUs is determined based on the Corporation's stock price at the end of each reporting period. For the six months ended June 30, 2019, salaries and benefits included a PSU expense of $60. As at June 30, 2019, the liability for PSUs was $193.

The following table summarizes changes in the PSUs for the six months ended June 30, 2019:

	2019
Opening balance of PSUs at January 1, 2019	62,493
PSUs granted	51,077
PSUs vested and settled	(4,195)
PSUs forfeited	(26,933)
PSUs granted on dividend reinvestment	3,380
Total number of PSUs at June 30, 2019	**85,822**

14. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Facilities.

14.1 Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

14.2 Functional and presentation currency

The Corporation translates monetary assets and liabilities denominated in Canadian dollars, principally its convertible debentures, exchangeable interest liability and certain of its cash balances, which are all denominated in Canadian dollars, at exchange rates in effect at the reporting date. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations were incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses, including translation adjustments, are included in the determination of net income and comprehensive income.

14.3 Basis of consolidation

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation (a) has the power over the entity, (b) is exposed, or has rights, to variable returns from its involvement with the entity, and (c) has the ability to use its power to affect its returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences, until the date that control ceases. Non-controlling interest represents the portion of a subsidiary's net earnings and net assets that are attributable to shares of such subsidiary not held by the Corporation.

The non-controlling interest in the equity of the Corporation's subsidiaries is included as a separate component of equity.

All intra-company balances and transactions have been eliminated in preparing these consolidated financial statements. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Corporation.

14.4 Business combinations

Business combinations are accounted for using the acquisition method as of the date when control is transferred to the Corporation. The Corporation measures goodwill as the excess of the sum of the fair value of the consideration transferred over the net identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Transaction costs that the Corporation incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in net income and comprehensive income.

At the date of the acquisition, the non-controlling interest is measured at the non-controlling interest's proportionate share of the fair value of identifiable assets of the acquiree. Contingent consideration in respect of certain acquisitions, accounted for as exchangeable interest liability, is recorded on the consolidated balance sheet with periodic changes in fair value of that liability reflected in net income and comprehensive income.

14.5 Segment information

The operations and productive capacity of the Facilities revolve around the provision of surgical procedures. Each Facility is organized as an individual entity and separate financial statements are prepared for each entity. The chief operating decision makers of the Corporation, being the Chief Executive Officer and the Chief Financial Officer, regularly review performance of each individual Facility to make decisions about resources to be allocated to each Facility and assess their performance. Therefore, each Facility represents a separate operating segment.

Management of the Corporation has concluded that the operating segments of the Corporation meet the criteria for aggregation pursuant to IFRS 8, *Operating Segments* and, therefore, discloses a single reportable segment. In forming its conclusion about the aggregation of the Facilities, management of the Corporation evaluated the long-term economic characteristics of each Facility, the comparative nature of the Facilities' operations, and the level of regulation of each Facility.

The services delivered by each Facility and the patients who use those services are similar. The vast majority of patients are insured through private insurance or government insurance programs (i.e., Medicaid or Medicare), which allows for a wide group of patients electing to have their procedures performed at one of the Facilities. The Facilities principally provide surgical facilities, support staff and pre- and post-surgical care related to surgeries. Finally, the Facilities have similar economic characteristics, which management defines as comparable long-term operating margins, recognizing differences between the Facilities in payor mix, surgical specialties and local healthcare markets.

14.6 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and all liquid investments purchased with a maturity of six months or less from the purchase date and which can be redeemed by the Corporation.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.7 Short-term and long-term investments

Investments represent liquid investments purchased with a maturity of more than six months. Investments with maturities of more than six months but less than twelve months are classified as short-term and investments with maturities of twelve months or more are classified as long-term. The Corporation limits its exposure to credit risk through application of its investment policy. The policy permits investment of its cash and cash equivalents and short-term and long-term investments in (i) liquid securities issued or guaranteed by the Governments of Canada and the United States of America, or political subdivisions thereof and with (ii) certain Canadian chartered banks or banks regulated by the United States of America as listed in the policy. The carrying amount of investments represents the Corporation's maximum exposure to credit risk for such investments.

14.8 Accounts receivable

Accounts receivable are recorded at the time services are rendered at the amounts estimated to be recoverable from third-party payors and patients, by applying the following policies:

(i) Amounts billed are reduced by an allowance for third-party payor adjustments which are maintained at a level management believes reflects the estimated adjustments that will be applied upon collection of the amounts billed. The allowance is established using the third-party payor contracts effective at period end and/or based on historical payment rates.

(ii) An allowance for non-collectible receivable balances is recognized at a level management believes is adequate to absorb probable losses. Management determines the adequacy of the allowance based on historical data, current economic conditions, and other pertinent factors for the respective Facility. Patient receivables are written off as non-collectible when all reasonable collection efforts have been exhausted.

Payments from third-party payors are generally received within 60 days of the billing date. However, accounts involving non-contracted payment sources, such as auto and general liability insurance, are subject to recovery efforts, including rebilling and insurance litigation, until they are collected or considered not collectible. Residual amounts due from patients, such as co-payments and deductibles, are considered past due 30 days after receiving payment from third-party payors.

14.9 Supply inventory

Supply inventory consists of medical supplies, including implants and pharmaceuticals. It is stated at the lower of cost or net realizable value, using the first-in, first-out valuation method.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation of property and equipment is computed using the straight-line and declining balance methods over the estimated useful lives of the assets. Land is not depreciated. The estimated useful lives of property and equipment are as follows:

Building and improvements	3-40 years
Equipment and furniture	3-20 years

Depreciation methods, useful lives and residual values are reviewed on an annual basis.

14.11 Right-of-use assets

All leases are capitalized with the cost included in right-of-use assets, and the related liability recorded in current and non-current liabilities. Depreciation of right-of-use assets is computed using the straight-line method over the shorter of the lease term and their useful lives unless it is reasonably certain that the Facilities will obtain ownership by the end of the lease term.

14.12 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of cost over the fair value of identifiable net assets acquired. For business acquisitions occurring after the date of transition to IFRS (January 1, 2010), goodwill is also recognized on non-controlling interest based on elections made independently for each acquisition. Goodwill is stated at cost less accumulated impairment losses. Goodwill is not amortized but is reviewed at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

14.13 Other intangibles

Other intangibles are recognized only when it is probable that the expected future economic benefits attributable to the assets will be realized by the Corporation and the cost can be reliably measured. Other intangibles represent the value of the hospital operating licenses, non-compete agreements, medical charts and records, care networks and trade names. Other intangibles are stated at cost less accumulated amortization and accumulated impairment losses, when applicable.

Upon recognition of an intangible asset, the Corporation determines if the asset has a definite or indefinite life. In making the determination, the Corporation considers the expected use, expiry of agreements, nature of assets, and whether the value of the assets decreases over time.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amortization is recognized on a straight-line basis over the estimated useful lives of other intangibles from the date they are available for use. The estimated useful lives of other intangibles are as follows:

Hospital operating licenses	5 years - indefinite life
Non-compete agreements	3-5 years
Medical charts and records	5-7 years
Care networks	8-18 years
Trade names	20 years - indefinite life

Trade names represent the value assigned to the reputation of the hospitals and their standing in the business and local community which allow them to earn higher than average returns.

14.14 Impairment of non-financial assets

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

For the purposes of assessing impairment, assets are grouped at the CGU level, which is the lowest level for which there are separately identifiable cash flows. Management considers each Facility as a CGU, with the exception of the seven MFC Nueterra ASCs which collectively constitute a single CGU.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to dispose and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in net income and comprehensive income. It is allocated first to reduce the carrying amount of any goodwill allocated to the respective Facility and, then, to reduce the carrying amount of the other assets of the respective Facility on a pro rata basis.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.15 Financial assets and liabilities

The Corporation initially recognizes financial assets on the date that they originate or on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Corporation assesses financial assets for impairment at each reporting date.

14.16 Impairment of non-derivative financial assets

Financial assets not designated as fair value through profit or loss (“FVTPL”), including interests in equity accounted investees, are assessed at each reporting date to determine whether there is objective evidence of impairment.

14.16.1 Financial assets measured at amortized cost

The Corporation considers evidence of impairment for financial assets measured at amortized cost on both an individual and collective basis. In assessing impairment, the Corporation uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset’s carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognized in net income and comprehensive income and reflected in an allowance account. If the amount of an impairment loss subsequently decreases, then the amount is reversed through net income and comprehensive income.

14.16.2 Equity-accounted investee

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in net income and comprehensive income and is reversed if there has been a favourable change in the estimates used to calculate that recoverable amount.

14.17 Measurements of fair value

A number of the Corporation’s accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management of the Corporation regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from these sources to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Corporation uses observable market data to the extent possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

Level 1 – unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Corporation recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

14.18 Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the estimated expenditures required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values where the time value of money is material. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.19 Convertible debentures

The Corporation's convertible debentures are convertible into a fixed number of common shares at the option of the holder. The number of common shares to be issued does not vary with changes in the market value of the convertible debentures.

The convertible debentures are denominated in Canadian dollars while the Corporation's functional currency is U.S. dollars, which requires the Corporation to deliver a variable amount of cash to settle the obligation. Because the conversion option requires the Corporation to deliver a fixed number of common shares to settle a variable liability, the convertible debentures are considered hybrid financial instruments. The Corporation elected to account for the convertible debentures as a financial liability measured at FVTPL. The changes in the recorded amounts of the liability, resulting from the changes in the fair value of the convertible debentures and fluctuations in foreign exchange rates between the periods, are reflected in net income and comprehensive income.

14.20 Exchangeable interest liability

Exchangeable interest liability represents an estimated liability for the remaining portion of the interest in the Facilities held by the non-controlling interest which can be exchanged, subject to certain restrictions, for common shares of the Corporation. The exchangeable interest liability is measured at FVTPL. The fair value is measured at the end of each reporting period taking into account (i) the calculated amount of common shares potentially issuable for the remaining portion of the exchangeable interest in the Facilities held by the non-controlling interest, (ii) the market value of common shares, and (iii) the exchange rate between Canadian and U.S. dollars at the end of the reporting period.

14.21 Facility service revenue

Facility service revenue ("revenue") consists of the actual amounts received and the estimated net realizable amounts receivable from patients and third-party payors. Revenue is derived from the provision of the facilities and ancillary services for the performance of scheduled (as opposed to emergency) surgical, imaging, and diagnostic procedures. The Facilities bill either their patients or the patients' third-party payors as of the date of service upon completion of the procedure. Facility service revenue is recognized as of the date of the service when the recovery of consideration is probable and the Corporation is satisfied with the performance objectives.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.22 Income taxes

Income tax expense (recovery) consists of current and deferred taxes. Income tax expense (recovery) is recognized in the consolidated statements of income and comprehensive income except to the extent that it relates to a business combination or items recognized directly in equity, in which case it is recognized in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for reporting period, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

The Corporation calculates deferred income taxes using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted at the end of the reporting period. The effect on tax assets and liabilities of a change in tax rates is recognized in net income and comprehensive income in the period that includes the date of enactment or substantive enactment.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are always recognized in full. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of temporary differences is controlled by the Corporation and it is probable that the temporary differences will not reverse in the foreseeable future.

14.23 Share-based payments

The Corporation has an equity settled, share-based compensation plan under which the entity receives services from key executives as consideration for the Options of the Corporation. The fair value of the services received in exchange for the grants of the Options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the Options granted.

Non-market vesting conditions are included in assumptions about the number of Options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. When the Options are exercised, the Corporation issues new common shares. The proceeds received, together with the amount recorded in contributed surplus, are credited to share capital when the Options are exercised.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The dilutive effect of outstanding Options is reflected as additional share dilution in the computation of fully diluted earnings per share.

In September 2016, the IASB issued amendments to IFRS 2, *Share-Based Payments*. The amendments provide clarification on how to account for certain types of share-based payment transactions.

14.24 New and revised IFRS adopted

The Corporation has applied the following new and revised IFRS which are effective for periods beginning January 1, 2019.

14.24.1 IFRS 16, *Leases*

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

The Corporation has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. The Corporation did not record any adjustments to retained earnings at January 1, 2019, since the right-of-use assets were measured at amounts equal to lease liabilities, adjusted for deferred rent. Accordingly, the comparative information presented for 2018 has not been restated and 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.

<u>Definition of a Lease</u>

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 or changed on or after January 1, 2019.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lessee Accounting

The Facilities' lease assets including 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 payments 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.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 June 30, 2019	55,111	1,560	1,382	58,053

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 six months ended June 30, 2019, the Corporation recognized $3,840 of incremental depreciation expense and $1,620 of incremental interest expense, while general and administrative expenses were lower by $6,399 as the Corporation no longer records lease expenses in general and administrative expenses. The Corporation also recognized $20 and $10 in low-value leases and short-term leases, respectively.

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

Right-of-use assets	**$**
Balance at January 1, 2019	63,278
New lease agreements	1,929
Termination of lease agreements	(2,336)
Depreciation expense	(4,818)
Ending balance at June 30, 2019	**58,053**

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease liabilities	**$**
Balance at January 1, 2019	66,358
New lease agreements	1,410
Termination of lease agreements	(2,553)
Interest expense	1,765
Payment of lease liabilities	(5,778)
Ending balance at June 30, 2019	**61,202**

14.24.2 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 significant impacts on the consolidated financial statements.

14.25 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.