MEDICAL FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2023

March 13, 2024

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 audited consolidated financial statements and accompanying notes of the Corporation for the year ended December 31, 2023 ("financial statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

Additional information about the Corporation and its annual information form are available on SEDAR+ at www.sedarplus.ca.

TABLE OF CONTENTS

1. Caution Concerning Forward-Looking Statements 2
2. Non-IFRS Financial Measures 3
3. Business Overview 4
4. Financial and Performance Highlights 7
5. Consolidated Operating and Financial Review 9
6. Quarterly Operating and Financial Results 21
7. Reconciliation of Non-IFRS Financial Measures 23
8. Outlook 25
9. Liquidity and Capital Resources 27
10. Share Capital and Dividends 29
11. Financial Instruments 30
12. Related Party Transactions 32
13. Critical Accounting Judgments and Estimates 33
14. Disclosure Controls and Procedures and Internal Controls over Financial Reporting 35
15. Risk Factors 36
16. New and Revised IFRS not yet Adopted 42

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 this 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.sedarplus.ca).

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

2. NON-IFRS FINANCIAL MEASURES

The Corporation uses certain non-IFRS financial measures which it believes provide useful measures for evaluation and assessment of the Corporation's performance. They are presented on a uniform basis from period to period, thereby allowing for consistent comparability. Management believes that the non-IFRS financial measures presented in this MD&A (i) are relevant for users of the Corporation's financial statements to assess the Corporation's performance and ability to pay dividends, and (ii) may be used to calculate certain ongoing rights and obligations of the Corporation. Non-IFRS financial measures do not have any standard meaning prescribed by IFRS, are unlikely to be comparable to similar measures presented by other issuers, and should not be considered as alternatives to comparable measures determined in accordance with IFRS as indicators of the Corporation's financial performance, including its liquidity, cash flows, and profitability.

The Corporation uses the following non-IFRS financial measures which are presented in Sections 5 and 6 of this MD&A under the heading "Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA" and in Section 7 of this MD&A under the heading "Reconciliation of Non-IFRS Financial Measures", and reconciled to the applicable IFRS measures:

- **Cash available for distribution** is a non-IFRS financial measure of cash generated from operations during a reporting period which is available for distribution to common shareholders. Cash available for distribution is derived from net cash provided by operating activities, before certain non-cash adjustments, including (i) net changes in non-cash operating working capital, (ii) stock options expense, net of gain on forfeitures, (iii) interest expense on exchangeable interest liability, and (iv) the difference between accrual-based amounts and actual cash flows related to interest and taxes, less (v) maintenance capital expenditures, (vi) payment of lease liabilities, (vii) repayments of notes payable by the Facilities, and (viii) non-controlling interest in cash flows of the Facilities. The Corporation calculates cash available for distribution in U.S. dollars and translates it into Canadian dollars using the average exchange rate applicable during the period per the Bank of Canada. Management believes that cash available for distribution is relevant in understanding the Corporation's ability to earn cash and pay dividends to its common shareholders.

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

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

- **Distributions per common share** is a non-IFRS financial measure calculated as the distributions divided by the basic weighted average number of common shares outstanding during the period.

- **Earnings before interest, taxes, depreciation and amortization** ("EBITDA") is a non-IFRS financial measure defined as net income for the period before (i) finance costs, (ii) income taxes, (iii) depreciation of property and equipment, (iv) depreciation of right-of-use assets, (v) amortization of other intangibles, and (vi) non-operating (gains) losses. Management believes that EBITDA is relevant in understanding the Corporation's ability to service its debt, finance capital expenditures and pay dividends to its common shareholders.

- **Adjusted EBITDA** is a non-IFRS financial measure defined as EBITDA before impairment of goodwill, other intangibles and equipment.

- **Payout ratio** is a non-IFRS financial measure calculated as total distributions per common share in Canadian dollars divided by cash available for distribution per common share in Canadian dollars. Management monitors the payout ratio to ensure the Corporation can adhere to its dividend policy.

3. BUSINESS OVERVIEW

The Corporation is a British Columbia corporation. The capital of the Corporation is in the form of publicly traded common shares. The common shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbol "DR". The Corporation's current quarterly dividend on its common shares is Cdn$0.0805 per common share (refer to Section 10 "Share Capital and Dividends" of this MD&A under the heading "Dividends").

The Corporation's operations are based in the United States. Through its wholly-owned U.S.-based subsidiaries, Medical Facilities America, Inc. ("MFA") and Medical Facilities (USA) Holdings, Inc. ("MFH"), the Corporation owns controlling interests in, and/or controls by virtue of retaining approval rights over certain significant governance matters, and derives substantially all of its income from, five 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 five Facilities are comprised of four SSHs located in Arkansas, Oklahoma, and South Dakota, and one ASC located in California. ASCs are specialized surgical centers that only provide outpatient procedures, whereas SSHs are licensed for both inpatient and outpatient surgeries. The SSHs and ASC provide facilities, including staffing, surgical materials and supplies, and other support necessary for scheduled surgical, pain management, imaging, and diagnostic procedures and derive their revenue primarily from the fees charged for the use of these facilities. The Facilities mainly focus on a limited number of clinical specialties such as orthopedics, neurosurgery, pain management and other non-emergency elective procedures. In addition, two of the SSHs provide urgent care services.

During 2023, the Corporation completed the divestiture of five ASCs (the "MFC Nueterra ASCs") which it indirectly owned through a partnership between its wholly-owned U.S. subsidiary and Nueterra MF Holdings, LLC ("MFC Nueterra Partnership").

Clinical operations were permanently closed at Eastwind Surgical, LLC on May 5, 2023, and the legal entity was subsequently dissolved on February 18, 2024. Clinical operations were also permanently closed at Riverview Ambulatory Surgical Center, LLC on June 30, 2023, which is in the process of being wound-up, as part of which its assets have been liquidated, with net proceeds remaining after payment of liabilities, if any, to be distributed among its respective owners. Certain gains and losses were recorded in connection with these developments in general and administrative expenses, the net impact of which is insignificant.

On July 1, 2023, the Corporation sold all of its 30.3% controlling ownership interest in City Place Surgery Center, together with its 28.0% non-controlling ownership interest in St. Luke's Surgery Center of Chesterfield, LLC ("St. Luke's ASC"), for combined proceeds of $1.4 million. The buyer also assumed St. Luke's ASC's debt of $5.0 million and released the Corporation from its pro-rata guarantee. In connection with this transaction, the Corporation recorded a pre-tax gain of $1.1 million.

On July 31, 2023, the Corporation sold all of its 58.7% controlling ownership interest in Miracle Hills Surgery Center, LLC for proceeds of $1.0 million. In connection with this transaction, the Corporation recorded a pre-tax gain of $0.6 million.

On August 25, 2023, the Corporation sold all of its 49.6% controlling ownership interest in Brookside Surgery Center, LLC for proceeds of $1.1 million. In connection with this transaction, the Corporation recorded a pre-tax gain of $0.8 million.

As of the dates of the above sale transactions, the Corporation no longer consolidates the financial results of these ASCs. In addition, the management services agreement between MFC Nueterra Partnership and NueHealth, LLC, providing for management services to the MFC Nueterra ASCs, was terminated effective September 30, 2023.

Government Stimulus

The *Coronavirus Aid, Relief, and Economic Security (CARES) Act* (the "CARES Act") was signed into law on March 27, 2020 in response to COVID-19. The CARES Act included provisions for financial assistance to healthcare providers via, among other provisions, the Public Health and Social Services Emergency Fund ("PHSSEF"), the Paycheck Protection Program ("PPP"), the Employee Retention Credit ("ERC"), and expansion of an existing Centers for Medicare and Medicaid Services accelerated payment program.

The PHSSEF was administered by the U.S. Department of Health and Human Services ("HHS") to provide eligible healthcare providers with relief funds to cover non-reimbursable expenses, including lost revenue, attributable to COVID-19. Funds not utilized for eligible expenses and not applied to lost revenues must be returned. The recognition of amounts received was conditioned upon receipt of the funds, the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, and certification that the payment would be used to prevent, prepare for and respond to COVID-19. For the year ended December 31, 2023, the Facilities did not receive any funds from the HHS (December 31, 2022: $0.9 million).

The PPP expanded the guaranteed lending program under Section 7(a) of the *Small Business Act* administered by the U.S. Small Business Administration ("SBA"). To the extent the recipient was eligible to receive the loan, the loan amounts received were eligible for forgiveness to the extent they were used for certain qualifying expenses and to maintain payroll levels and related expenses during the 8 to 24-week period following loan origination.

The Facilities recognized income for the PPP loans received during prior periods based on reasonable assurance that they had met the forgiveness requirements. As such, $1.5 million and $12.2 million were recognized as government stimulus income for the years ended December 31, 2021 and 2020, respectively.

However, due to the denial and additional review of certain loan forgiveness applications by the SBA in 2022, the Corporation no longer had reasonable assurance of meeting the forgiveness requirements for loans of $12.3 million. As a result, these were reversed from government stimulus income during the year ended December 31, 2022, and recorded as a liability under government stimulus funds repayable as of December 31, 2022.

Subsequent to the divestiture of the MFC Nueterra ASCs, there remains a balance of $12.0 million in the government stimulus funds repayable in the consolidated balance sheet as of December 31, 2023.

There remains uncertainty over the final outcome as forgiveness applications for these PPP loans must still be formally decided upon by the SBA. Management plans to diligently pursue all reasonably available channels for reversing any denials. Any loans subsequently forgiven will result in a recognition of income and a reversal of the corresponding liability.

The ERC was a refundable tax credit against certain employment taxes that could be claimed by eligible employers whose business had been financially impacted by COVID-19. For the year ended December 31, 2023, the Facilities had no claims approved under the ERC (December 31, 2022: $0.6 million).

Most COVID-19 related government stimulus funds introduced under past or present legislation had been fully exhausted or terminated by December 31, 2022. In relation to the financial assistance received, there can be no assurance that the Facilities will be able to comply with the applicable terms and conditions to retain such assistance.

Other Information

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 holders were granted the right to exchange up to 14% (5% in the case of Arkansas Surgical Hospital) of the ownership interest in their respective Facilities for common shares of the Corporation. The liability associated with this derivative instrument is recorded on the consolidated balance sheet. To date, the non-controlling interest holders of two of the eligible Facilities have exercised portions of their exchangeable interests.

Summary of Facility Information as of December 31, 2023

	Arkansas Surgical Hospital ("ASH")	Oklahoma Spine Hospital ("OSH")	Black Hills Surgical Hospital ("BHSH")	Sioux Falls Specialty Hospital ("SFSH")	The Surgery Center of Newport Coast ("SCNC")
Location	North Little Rock Arkansas	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California
Year Opened	2005	1999	1997	1985	2004
Year Acquired by the Corporation	2012	2005	2004	2004	2008
Ownership Interest	51.0%	64.0%	54.2%	51.0%	51.0%
Non-controlling Interest	49.0%	36.0%	45.8%	49.0%	49.0%
Exchangeable Interest	5.0%	1.0%	10.8%	14.0%	-
Size	126,000 sq ft	61,000 sq ft	86,000 sq ft	76,000 sq ft	7,000 sq ft
Operating/Procedure Rooms	13/2	7/2	11[2]/1	15/1	2/1
Overnight Rooms	41[1]	25	25	33	-

[1] *Licensed for 47 beds.*

[2] *Licensed for 12 rooms.*

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information

In thousands of U.S. dollars, except per share amounts and as indicated otherwise	Year Ended December 31, 2023		2022		2021
Facility service revenue	445,582		424,551		398,633
Government stimulus income, net of reversals	-		(10,162)		13,099
Revenue and other income	445,582		414,389		411,732
Operating expenses	378,473		379,450		334,374
Income from operations	67,109		34,939		77,358
Net income for the year	43,999		12,295		46,493
Attributable to:					
Owners of the Corporation [(1)]	18,503		(4,405)		15,500
Non-controlling interest [(1)]	25,496		16,700		30,993
Earnings (loss) per share attributable to owners of the Corporation					
Basic	$0.73		($0.15)		$0.50
Fully diluted	$0.73		($0.15)		$0.50
EBITDA [(2)]	88,646		55,702		104,127
Adjusted EBITDA [(2)]	88,646		72,251		104,127
Cash available for distribution [(2)]	C$ 30,302		C$ 27,536		C$ 37,448
Distributions [(2)]	C$ 8,085		C$ 9,302		C$ 9,011
Cash available for distribution per common share [(2)]	C$ 1.200		C$ 0.938		C$ 1.204
Distributions per common share [(2)]	C$ 0.320		C$ 0.317		C$ 0.290
Payout ratio [(2)]	26.7%		33.8%		24.1%

	December 31, 2023	December 31, 2022	December 31, 2021
Total assets	354,885	377,791	446,966
Total long-term financial liabilities	93,300	123,042	126,118

(1) Net income attributable to owners of the Corporation fluctuates significantly between the periods due to variations in finance costs, primarily in the value of the exchangeable interest liability, impairment of goodwill, other intangibles and equipment, impairment losses (gains) on loans receivable, and income taxes. These charges are incurred at the corporate level rather than at the Facility level. On the other hand, net income (loss) attributable to non-controlling interest represents the interest of the Facilities' non-controlling interest holders in the net income of the Facilities on a stand-alone basis and, therefore, does not vary as significantly between the periods.

(2) Non-IFRS financial measures. Please refer to Section 2 under the heading "Non-IFRS Financial Measures", Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures" and Sections 5 and 6 under the heading "Reconciliation of net income for the period to EBITDA and Adjusted EBITDA."

Selected Financial Information for the Year Ended December 31, 2023 compared to the Year Ended December 31, 2022

For the year ended December 31, 2023, revenue and other income was $445.6 million, an increase of 7.5% from $414.4 million for the prior year, including the $10.2 million reduction in prior year government stimulus income driven mainly by the reversal of PPP income of $12.3 million. Facility service revenue of $445.6 million increased by 5.0% from $424.6 million for the prior year, primarily due to the combined positive impact of case and payor mix, along with higher surgical case volume, partly offset by the impact of the divestiture of the MFC Nueterra ASCs.

EBITDA for the year ended December 31, 2023 was $88.6 million or 19.9% of revenue and other income compared to $55.7 million or 13.4% of revenue and other income for the prior year, up mainly due to the non-cash impairment loss on goodwill, other intangibles and equipment of $16.5 million relating to the MFC Nueterra ASCs cash-generating unit recorded in the prior year ("Impairment Charge"), along with the prior year reversal of PPP income, and higher facility service revenue which exceeded the increase in operating expenses

before the impact of the prior year Impairment Charge. Excluding the impact of the prior year Impairment Charge, Adjusted EBITDA for the year ended December 31, 2022 was $72.3 million or 17.4% of revenue and other income.

Net income for the year ended December 31, 2023 was $44.0 million compared to net income of $12.3 million for the prior year, with the increase mostly attributable to the prior year Impairment Charge, as well as higher income from operations at the Facilities inclusive of the prior year quarter reversal of PPP income, along with cost saving initiatives at the corporate level, and the current year gain recorded on the sale of the MFC Nueterra ASCs, partly offset by higher income tax expense.

The Corporation generated cash available for distribution of Cdn$30.3 million for the year ended December 31, 2023, representing an increase of Cdn$2.8 million or 10.0% from Cdn$27.5 million for the prior year. Distributions per common share increased between the years by Cdn$0.003 to Cdn$0.320, while the payout ratio was 26.7% for the year ended December 31, 2023 compared to 33.8% for the prior year. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures.”

Selected Financial Information for the Year Ended December 31, 2022 compared to the Year Ended December 31, 2021

For the year ended December 31, 2022, revenue and other income was $414.4 million, an increase of 0.6% from $411.7 million for the same period in 2021, despite a $23.3 million decrease in government stimulus income driven partly by the reversal of PPP income of $12.3 million. Facility service revenue of $424.6 million increased by 6.5% from $398.6 million for the same period in 2021, primarily due to higher surgical case volume, attributable to the Facilities’ ongoing recovery from the negative impacts of the COVID-19 pandemic, along with the combined positive impact of case and payor mix.

EBITDA for the year ended December 31, 2022 was $55.7 million or 13.4% of revenue and other income compared to $104.1 million or 25.3% of revenue and other income for the same period in 2021, down mainly due to the Impairment Charge in 2022, along with higher operating expenses and the reversal of PPP income, the combined impact of which exceeded the increase in facility service revenue. Excluding the impact of the Impairment Charge, Adjusted EBITDA was $72.3 million or 17.4% of revenue and other income for the year ended December 31, 2022.

Net income for the year ended December 31, 2022 was $12.3 million compared to net income of $46.5 million for the same period in 2021, with the decrease mostly attributable to the Impairment Charge in 2022, as well as lower income from operations at the Facilities, and the impairment loss on the loan receivable from an associate, partly offset by lower finance costs driven by the change in the value of exchangeable interest liability (refer to Section 5 “Consolidated Operating and Financial Review” of this MD&A under the heading “Change in Value of Exchangeable Interest Liability”).

The Corporation generated cash available for distribution of Cdn$27.5 million for the year ended December 31, 2022, representing a decrease of Cdn$9.9 million or 26.5% from Cdn$37.4 million for the same period in 2021. Distributions per common share increased between the years by Cdn$0.027 to Cdn$0.317, while the payout ratio was 33.8% for the year ended December 31, 2022 compared to 24.1% for the same period in 2021. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures.”

5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

For the Three Months Ended December 31, 2023

The following table and discussion compare operating and financial results of the Corporation for the three months ended December 31, 2023 to the three months ended December 31, 2022:

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2023**	**2022**	**$ Change**	**% Change**
Revenue and other income				
Facility service revenue	122,265	119,434	2,831	2.4%
Government stimulus income, net of reversals	-	(12,335)	12,335	100.0%
	122,265	**107,099**	**15,166**	**14.2%**
Operating expenses				
Salaries and benefits	34,937	33,736	1,201	3.6%
Drugs and supplies	39,459	41,040	(1,581)	(3.9%)
General and administrative expenses	17,335	17,042	293	1.7%
Impairment of goodwill, other intangibles and equipment	-	16,549	(16,549)	(100.0%)
Depreciation of property and equipment	2,301	2,300	1	0.0%
Depreciation of right-of-use assets	2,587	2,898	(311)	(10.7%)
Amortization of other intangibles	136	161	(25)	(15.5%)
	96,755	**113,726**	**(16,971)**	**(14.9%)**
Income (loss) from operations	**25,510**	**(6,627)**	**32,137**	**484.9%**
Finance costs (income)				
Change in value of exchangeable interest liability	(1,277)	(11,036)	9,759	88.4%
Interest expense on exchangeable interest liability	2,017	1,944	73	3.8%
Interest expense, net of interest income	1,505	1,668	(163)	(9.8%)
Impairment gain on loan receivable	-	(1,394)	1,394	100.0%
Gain on foreign currency	(8)	(6)	(2)	(33.3%)
	2,237	**(8,824)**	**11,061**	**125.4%**
Non-operating (gains) losses				
Share of equity loss in associates	-	303	(303)	(100.0%)
	-	**303**	**(303)**	**(100.0%)**
Income before income taxes	**23,273**	**1,894**	**21,379**	**1,128.8%**
Income tax expense	2,962	5,231	(2,269)	(43.4%)
Net income (loss) for the period	**20,311**	**(3,337)**	**23,648**	**708.7%**
Attributable to:				
Owners of the Corporation	10,882	(2,274)	13,156	578.5%
Non-controlling interest	9,429	(1,063)	10,492	987.0%
Basic earnings (loss) per share attributable to owners of the Corporation	$0.44	($0.08)	0.52	650.0%
Fully diluted earnings (loss) per share attributable to owners of the Corporation	$0.39	($0.26)	0.65	250.0%
Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA [(1)]				
Net income (loss) for the period	20,311	(3,337)	23,648	708.7%
Income tax expense	2,962	5,231	(2,269)	(43.4%)
Non-operating (gains) losses	-	303	(303)	(100.0%)
Finance costs (income)	2,237	(8,824)	11,061	125.4%
Depreciation of property and equipment	2,301	2,300	1	0.0%
Depreciation of right-of-use assets	2,587	2,898	(311)	(10.7%)
Amortization of other intangibles	136	161	(25)	(15.5%)
EBITDA [(1)]	**30,534**	**(1,268)**	**31,802**	**2,508.0%**
Impairment of goodwill, other intangibles and equipment	-	16,549	(16,549)	(100.0%)
Adjusted EBITDA [(1)]	**30,534**	**15,281**	**15,253**	**99.8%**

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

Revenue and Other Income

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	2023	2022	$ Change	% Change
ASH	24,360	16,991	7,369	43.4%
OSH	21,572	19,430	2,142	11.0%
BHSH	30,181	27,005	3,176	11.8%
SFSH	43,646	37,169	6,477	17.4%
SCNC	2,475	1,391	1,084	77.9%
MFC Nueterra ASCs	31	5,113	(5,082)	(99.4%)
Revenue and other income	**122,265**	**107,099**	**15,166**	**14.2%**

For the three months ended December 31, 2023, revenue and other income increased from the same period in 2022 by $15.2 million or 14.2%, with the increase primarily attributable to the prior year quarter reduction in government stimulus income ($12.3 million) due to the reversal of PPP income. Facility service revenue increased by $2.8 million or 2.4%, despite the decrease resulting from the divestiture of the MFC Nueterra ASCs ($6.0 million). Excluding the divested MFC Nueterra ASCs, facility service revenue increased from the same period in 2022 by $8.8 million, primarily due to the combined impact of case and payor mix ($4.5 million), which reflected a higher proportion of orthopedic and spine cases, along with increased surgical case volume ($3.3 million), and the impact of SFSH moving its anesthesia service and related billing in-house in the current year ($1.1 million).

Excluding the divested MFC Nueterra ASCs, total surgical cases increased by 4.9%, as observation cases increased by 28.8%, and outpatient cases increased by 4.2%, but inpatient cases decreased by 13.9%. Surgical case volume was up at certain Facilities, led by BHSH and ASH. Surgical case volume increases by payor over the same period last year came predominantly from Medicare and Blue Cross Blue Shield, which increased by 8.3% and 4.6%, respectively. Pain management cases were down by 16.4% compared to the same period last year.

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

- ASH's revenue increased mainly due to the prior year quarter reversal of PPP government stimulus income of $3.2 million, as well as higher surgical case volume, and the combined impact of case and payor mix, driven by more orthopedic and spine cases.

- OSH's revenue increased mainly due to the prior year quarter reversal of PPP government stimulus income of $3.3 million, along with higher surgical case volume, partly offset by the combined impact of case and payor mix, resulting in lower reimbursements per surgical case, as well as a decrease in pain management cases.

- BHSH's revenue increased mainly due to the impact of case mix, including more orthopedic and spine cases, and higher surgical case volume, partly offset by payor mix, including more government payors, and a decrease in pain management cases.

- SFSH's revenue increased mainly due to the prior year quarter reversal of PPP government stimulus income of $4.1 million, as well as the impact of case mix, driven by higher acuity orthopedic cases, and the impact of moving the anesthesia service and related billing in-house in the current year, partly offset by lower surgical case volume, and payor mix.

- SCNC's revenue increased mainly due to the prior year quarter reversal of PPP government stimulus income of $0.8 million, along with the impact of case mix, reflecting a higher proportion of orthopedic cases, partly offset by lower surgical case volume.

- MFC Nueterra ASCs' revenue decreased due to the Corporation's divestiture of the ASCs.

Operating Expenses

For the three months ended December 31, 2023, operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses ("G&A"), impairment of goodwill, other intangibles and equipment, depreciation of property and equipment, depreciation of right-of-use assets, and amortization of other intangibles (collectively "operating expenses"), decreased by $17.0 million or 14.9% from the same period in the prior year to $96.8 million. As a percentage of revenue and other income, operating expenses decreased to 79.1% from 106.2% in the same period last year.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2023**	**Percentage of Revenue**	**2022**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	18,977	77.9%	16,715	98.4%	2,262	13.5%
OSH	19,262	89.3%	20,587	106.0%	(1,325)	(6.4%)
BHSH	22,846	75.7%	22,022	81.5%	824	3.7%
SFSH	31,453	72.1%	28,513	76.7%	2,940	10.3%
SCNC	2,305	93.1%	2,266	162.9%	39	1.7%
MFC Nueterra ASCs	148	477.4%	5,693	111.3%	(5,545)	(97.4%)
Corporate	1,764	n/a	17,930	n/a	(16,166)	(90.2%)
Operating expenses	**96,755**	**79.1%**	**113,726**	**106.2%**	**(16,971)**	**(14.9%)**

Consolidated salaries and benefits increased by $1.2 million or 3.6%, primarily due to increases in clinical and non-clinical salaries and wages ($1.9 million) as a result of annual merit increases, full-time equivalent ("FTE") increases, and market wage pressures, as well as the impact of SFSH moving its anesthesia service and related billing in-house in the current year ($1.4 million), the forfeiture of stock options in the prior year quarter relating to the previous Chief Executive Officer ("Previous CEO") and the former Chief Operating Officer ("Former COO") ($0.8 million), and higher benefit costs from increased health plan utilization ($0.4 million). This was partly offset by the prior year quarter separation costs for the Previous CEO ($1.8 million), and the impact of the divestiture of the MFC Nueterra ASCs ($1.5 million). As a percentage of revenue and other income, consolidated salaries and benefits decreased to 28.6% from 31.5% a year earlier.

Consolidated drugs and supplies decreased by $1.6 million or 3.9%, primarily due to the impact of the divestiture of the MFC Nueterra ASCs ($2.3 million), along with case mix ($0.6 million), and higher vendor rebates ($0.2 million). This was partly offset by the impact of higher surgical case volume ($1.5 million). As a percentage of revenue and other income, the consolidated cost of drugs and supplies decreased to 32.3% from 38.3% a year earlier.

Consolidated G&A increased by $0.3 million or 1.7%. The increase in G&A was mainly attributable to higher corporate level costs related to share-based compensation plans driven by the decrease in the Corporation's share price in the prior year quarter ($1.2 million), as well as increases in contracted services ($0.5 million), and other Facility related expenses ($0.3 million). This was partly offset by the impact of the divestiture of the MFC Nueterra ASCs ($1.4 million), and lower costs pertaining to SFSH's accountable care organization ("ACO") ($0.3 million). As a percentage of revenue and other income, consolidated G&A decreased to 14.2% from 15.9% a year earlier.

In the prior year quarter, the Corporation recorded an impairment charge of $16.5 million relating to the MFC Nueterra ASCs cash-generating unit (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 remained unchanged from the same period last year, as the impact from the acquisition of fixed assets was fully offset by certain assets being fully depreciated, and the

divestiture of the MFC Nueterra ASCs. As a percentage of revenue and other income, consolidated depreciation of property and equipment decreased to 1.9% from 2.1% a year earlier.

Consolidated depreciation of right-of-use assets decreased by $0.3 million or 10.7%, mainly due to the expiration and termination of certain leases, and the divestiture of the MFC Nueterra ASCs, partly offset by the impact of new lease additions. As a percentage of revenue and other income, consolidated depreciation of right-of-use assets decreased to 2.1% from 2.7% a year earlier.

Consolidated amortization of other intangibles decreased marginally due to certain other intangible assets being fully amortized. As a percentage of revenue and other income, consolidated amortization of other intangibles decreased to 0.1% from 0.2% a year earlier.

Income (Loss) from Operations

Consolidated income from operations for the three months ended December 31, 2023 of $25.5 million was $32.1 million or 484.9% higher than the consolidated loss from operations of $6.6 million recorded in the prior year quarter, representing 20.9% of revenue and other income, compared to negative 6.2% in the same period in 2022. The increase is mainly due to the prior year quarter Impairment Charge, along with higher income from operations at the Facilities, as a result of the prior year quarter reversal of PPP income and the increase in facility service revenue.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2023**	**Percentage of Revenue**	**2022**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	5,383	22.1%	276	1.6%	5,107	1,850.4%
OSH	2,310	10.7%	(1,157)	(6.0%)	3,467	299.7%
BHSH	7,335	24.3%	4,983	18.5%	2,352	47.2%
SFSH	12,193	27.9%	8,656	23.3%	3,537	40.9%
SCNC	170	6.9%	(875)	(62.9%)	1,045	119.4%
MFC Nueterra ASCs	(117)	(377.4%)	(580)	(11.3%)	463	79.8%
Corporate	(1,764)	n/a	(17,930)	n/a	16,166	90.2%
Income (loss) from operations	**25,510**	**20.9%**	**(6,627)**	**(6.2%)**	**32,137**	**484.9%**

Finance Costs (Income)

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, and re-measured at each reporting date, and the changes in fair value are included in net income for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the (i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest holders during the trailing twelve-month period ending on the reporting date, (ii) changes in the market price of the Corporation's common shares, and (iii) fluctuations of the value of the Canadian dollar against the U.S. dollar. The change in value of the exchangeable interest liability increased by $9.8 million, attributable to variations in all three factors when comparing the current period to the same period in 2022.

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

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2023**	**September 30, 2023** *Unaudited*	**Change**	**December 31, 2022**	**September 30, 2022** *Unaudited*	**Change**
Number of common shares to be issued for exchangeable interest liability	5,913,560	5,937,372	(23,812)	6,297,268	6,238,440	58,828
Closing price of the Corporation's common shares	C$8.98	C$9.46	(C$0.48)	C$8.04	C$10.73	(C$2.69)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3247	$1.3579	($0.0332)	$1.3554	$1.3833	($0.0279)
Exchangeable interest liability	**40,087**	**41,364**	**(1,277)**	**37,354**	**48,390**	**(11,036)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability increased by $0.1 million, which was primarily driven by the variation in distributions from the Facilities between the reporting periods.

Interest Expense, Net of Interest Income

Interest expense, net of interest income decreased by $0.2 million mainly due to lower corporate credit facility interest expense due to the lower outstanding balance, as well as higher interest income.

Impairment Gain on Loan Receivable

Impairment gain of $1.4 million was recorded in the prior year quarter on the loan receivable from an associate, as a result of re-evaluating the impairment loss allowance reserved (refer to Section 13 under the heading "Allowance for Loans Receivable" for a discussion on the calculation methodology).

Gain on Foreign Currency

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares are made in Canadian dollars. Foreign currency gain increased marginally due to the relative change in foreign exchange rates between the reporting periods.

Non-Operating (Gains) Losses

Share of Equity Loss in Associates

A share of equity loss in associates of $0.3 million was recorded in the prior year quarter, mainly relating to the investment in St. Luke's ASC, which was divested in the current year.

Income Tax

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

Unaudited	**Three Months Ended December 31,**			
In thousands of U.S. dollars	**2023**	**2022**	**$ Change**	**% Change**
Current income tax expense	1,716	2,216	(500)	(22.6%)
Deferred income tax expense	1,246	3,015	(1,769)	(58.7%)
Income tax expense	**2,962**	**5,231**	**(2,269)**	**(43.4%)**

The decrease in current income tax expense versus the prior year quarter was primarily due to book to tax timing differences in the current period. The decrease in deferred income tax expense versus prior year quarter was mainly due to the change in the exchangeable interest liability.

Net Income (Loss)

The $23.6 million increase in net income for the three months ended December 31, 2023 was mainly attributable to the prior year quarter Impairment Charge, as well as higher income from operations at the Facilities inclusive of the prior year quarter reversal of PPP income, along with lower income tax expense, partly offset by higher finance costs, driven by the change in the value of the exchangeable interest liability versus the prior year quarter (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability").

EBITDA

EBITDA of $30.5 million for the three months ended December 31, 2023 increased by $31.8 million from negative $1.3 million recorded in the same period a year earlier, representing 25.0% of revenue and other income compared to negative 1.2% a year earlier, mainly driven by the prior year quarter Impairment Charge, as well as higher EBITDA at all Facilities, as a result of the prior year quarter reversal of PPP income and the increase in facility service revenue. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA."

Adjusted EBITDA

Adjusted EBITDA of $30.5 million for the three months ended December 31, 2023 increased by $15.2 million from $15.3 million in the same period a year earlier, representing 25.0% of revenue and other income, versus 14.3% a year earlier. For a reconciliation of Adjusted EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA."

For the Year Ended December 31, 2023

The following table and discussion compare operating and financial results of the Corporation for the year ended December 31, 2023 to the year ended December 31, 2022:

	Year Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2023**	**2022**	**$ Change**	**% Change**
Revenue and other income				
Facility service revenue	445,582	424,551	21,031	5.0%
Government stimulus income, net of reversals	-	(10,162)	10,162	100.0%
	445,582	**414,389**	**31,193**	**7.5%**
Operating expenses				
Salaries and benefits	134,035	127,352	6,683	5.2%
Drugs and supplies	148,900	143,925	4,975	3.5%
General and administrative expenses	74,001	70,861	3,140	4.4%
Impairment of goodwill, other intangibles and equipment	-	16,549	(16,549)	(100.0%)
Depreciation of property and equipment	9,528	9,288	240	2.6%
Depreciation of right-of-use assets	10,701	10,837	(136)	(1.3%)
Amortization of other intangibles	1,308	638	670	105.0%
	378,473	**379,450**	**(977)**	**(0.3%)**
Income from operations	**67,109**	**34,939**	**32,170**	**92.1%**
Finance costs				
Change in value of exchangeable interest liability	2,733	(8,224)	10,957	133.2%
Interest expense on exchangeable interest liability	7,243	7,362	(119)	(1.6%)
Interest expense, net of interest income	6,156	5,731	425	7.4%
Impairment loss on loans receivable	786	11,990	(11,204)	(93.4%)
Loss on foreign currency	34	3	31	1,033.3%
	16,952	**16,862**	**90**	**0.5%**
Non-operating (gains) losses				
Gain on sale of subsidiaries and equity investments	(2,487)	-	(2,487)	(100.0%)
Share of equity loss in associates	320	574	(254)	(44.3%)
	(2,167)	**574**	**(2,741)**	**(477.5%)**
Income before income taxes	**52,324**	**17,503**	**34,821**	**198.9%**
Income tax expense	8,325	5,208	3,117	59.9%
Net income for the year	**43,999**	**12,295**	**31,704**	**257.9%**
Attributable to:				
Owners of the Corporation	18,503	(4,405)	22,908	520.0%
Non-controlling interest	25,496	16,700	8,796	52.7%
Basic earnings (loss) per share attributable to owners of the Corporation	$0.73	($0.15)	0.88	586.7%
Fully diluted earnings (loss) per share attributable to owners of the Corporation	$0.73	($0.15)	0.88	586.7%
Reconciliation of net income for the year to EBITDA and Adjusted EBITDA (1)				
Net income for the year	43,999	12,295	31,704	257.9%
Income tax expense	8,325	5,208	3,117	59.9%
Non-operating (gains) losses	(2,167)	574	(2,741)	(477.5%)
Finance costs	16,952	16,862	90	0.5%
Depreciation of property and equipment	9,528	9,288	240	2.6%
Depreciation of right-of-use assets	10,701	10,837	(136)	(1.3%)
Amortization of other intangibles	1,308	638	670	105.0%
EBITDA (1)	**88,646**	**55,702**	**32,944**	**59.1%**
Impairment of goodwill, other intangibles and equipment	-	16,549	(16,549)	(100.0%)
Adjusted EBITDA (1)	**88,646**	**72,251**	**16,395**	**22.7%**

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

Revenue and Other Income

	Year Ended December 31,			
In thousands of U.S. dollars	**2023**	**2022**	**$ Change**	**% Change**
ASH	90,983	73,230	17,753	24.2%
OSH	80,033	75,749	4,284	5.7%
BHSH	106,006	98,314	7,692	7.8%
SFSH	147,183	134,132	13,051	9.7%
SCNC	9,698	9,617	81	0.8%
MFC Nueterra ASCs	11,679	23,347	(11,668)	(50.0%)
Revenue and other income	**445,582**	**414,389**	**31,193**	**7.5%**

For the year ended December 31, 2023, revenue and other income increased from the prior year by $31.2 million or 7.5%, with the increase primarily attributable to the prior year reduction in government stimulus income ($10.2 million) driven by the reversal of PPP income. Facility service revenue increased by $21.0 million or 5.0%, despite the decrease resulting from the divestiture of the MFC Nueterra ASCs ($12.6 million). Excluding the divested MFC Nueterra ASCs, facility service revenue increased from the prior year by $33.6 million, primarily due to the combined impact of case and payor mix ($23.1 million), which reflected a higher proportion of orthopedic and spine cases, along with increased surgical case volume ($6.9 million), and the impact of SFSH moving its anesthesia service and related billing in-house in the current year ($3.5 million).

Excluding the divested MFC Nueterra ASCs, total surgical cases increased by 2.4%, as observation cases increased by 37.4%, but inpatient cases decreased by 11.0%, and outpatient cases decreased by 0.6%. Surgical case volume was up at certain Facilities, led by ASH, while SFSH experienced the largest decrease. Surgical case volume increases by payor over the prior year came predominantly from Medicare and Blue Cross Blue Shield, which increased by 5.4% and 2.2%, respectively. Pain management cases were down by 10.1% compared to the prior year.

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

- ASH's revenue increased mainly due to higher surgical case volume, along with the combined impact of case and payor mix, driven by more orthopedic and spine cases, and the prior year reduction in government stimulus income driven by the reversal of PPP income.

- OSH's revenue increased mainly due to the prior year reduction in government stimulus income driven by the reversal of PPP income, along with higher surgical case volume, partly offset by the combined impact of case and payor mix, resulting in lower reimbursements per surgical case, as well as a decrease in pain management cases.

- BHSH's revenue increased mainly due to the impact of case mix, including more orthopedic and spine cases, and higher surgical case volume, partly offset by payor mix, including more government payors, a decrease in urgent care revenues, and a decrease in pain management cases.

- SFSH's revenue increased mainly due to the combined impact of case and payor mix, driven by higher acuity orthopedic cases, as well as the prior year reduction in government stimulus income driven by the reversal of PPP income, and the impact of moving the anesthesia service and related billing in-house in the current year, partly offset by lower surgical case volume.

- SCNC's revenue increased mainly due to the impact of case mix, reflecting a higher proportion of orthopedic cases, mostly offset by lower surgical case volume, and a reduction in government stimulus income.

- MFC Nueterra ASCs' revenue decreased due to the Corporation's divestiture of the ASCs.

Operating Expenses

For the year ended December 31, 2023, operating expenses decreased by $1.0 million or 0.3% from the prior year to $378.5 million. As a percentage of revenue and other income, operating expenses decreased to 84.9% from 91.6% in the prior year.

	Year Ended December 31,					
In thousands of U.S. dollars	**2023**	**Percentage of Revenue**	**2022**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	72,265	79.4%	65,009	88.8%	7,256	11.2%
OSH	75,321	94.1%	71,807	94.8%	3,514	4.9%
BHSH	88,073	83.1%	83,189	84.6%	4,884	5.9%
SFSH	113,059	76.8%	98,882	73.7%	14,177	14.3%
SCNC	8,779	90.5%	9,074	94.4%	(295)	(3.3%)
MFC Nueterra ASCs	11,574	99.1%	22,776	97.6%	(11,202)	(49.2%)
Corporate	9,402	n/a	28,713	n/a	(19,311)	(67.3%)
Operating expenses	**378,473**	**84.9%**	**379,450**	**91.6%**	**(977)**	**(0.3%)**

Consolidated salaries and benefits increased by $6.7 million or 5.2%, primarily due to increases in clinical and non-clinical salaries and wages ($6.1 million) as a result of annual merit increases, FTE increases, and market wage pressures, as well as the impact of SFSH moving its anesthesia service and related billing in-house in the current year ($5.5 million), higher physician salaries ($1.1 million), higher benefit costs from increased health plan utilization ($1.0 million), separation costs for the former Chief Development Officer ("Former CDO") in the current year ($0.8 million), and the forfeiture of stock options in the prior year relating to the Previous CEO and the Former COO ($0.8 million). This was partly offset by cost saving initiatives at the corporate level ($3.1 million), along with the impact of the divestiture of the MFC Nueterra ASCs ($3.1 million), the prior year separation costs for the Previous CEO ($1.8 million), and the forfeiture of stock options relating to the Former CDO in the current year ($0.5 million). As a percentage of revenue and other income, consolidated salaries and benefits decreased to 30.1% from 30.7% a year earlier.

Consolidated drugs and supplies increased by $5.0 million or 3.5%, primarily due to case mix ($5.9 million), which reflected a higher proportion of orthopedic and spine cases, and the impact of higher surgical case volume ($4.7 million). This was partly offset by the impact of the divestiture of the MFC Nueterra ASCs ($4.8 million), and higher vendor rebates ($0.8 million). As a percentage of revenue and other income, the consolidated cost of drugs and supplies decreased to 33.4% from 34.7% a year earlier.

Consolidated G&A increased by $3.1 million or 4.4%. The increase in G&A was mainly attributable to higher contracted services costs ($1.4 million), higher corporate level costs related to share-based compensation plans driven by the increase in the Corporation's share price in the current year as compared to a decrease in the prior year ($1.1 million), along with increases in repairs and maintenance ($0.9 million), rent ($0.9 million), other Facility related expenses ($0.8 million), costs pertaining to SFSH's ACO ($0.8 million), professional and billing fees ($0.7 million), IT costs ($0.2 million), and physician guarantees ($0.2 million). This was partly offset by the impact of the divestiture of the MFC Nueterra ASCs ($2.7 million), and cost saving initiatives at the corporate level ($1.2 million). As a percentage of revenue and other income, consolidated G&A decreased to 16.6% from 17.1% a year earlier.

In the prior year, the Corporation recorded an impairment charge of $16.5 million relating to the MFC Nueterra ASCs cash-generating unit (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 $0.2 million or 2.6%, mainly due to the acquisition of fixed assets, partly offset by certain assets being fully depreciated, and the divestiture of the MFC

Nueterra ASCs. As a percentage of revenue and other income, consolidated depreciation of property and equipment decreased to 2.1% from 2.2% a year earlier.

Consolidated depreciation of right-of-use assets decreased by $0.1 million or 1.3%, mainly due to the expiration and termination of certain leases, and the divestiture of the MFC Nueterra ASCs, partly offset by the impact of new lease additions. As a percentage of revenue and other income, consolidated depreciation of right-of-use assets decreased to 2.4% from 2.6% a year earlier.

Consolidated amortization of other intangibles increased by $0.7 million or 105.0%, mainly due to a revision of the remaining useful lives of certain intangible assets. As a percentage of revenue and other income, consolidated amortization of other intangibles increased to 0.3% from 0.2% a year earlier.

Income from Operations

Consolidated income from operations for the year ended December 31, 2023 of $67.1 million was $32.2 million or 92.1% higher than the consolidated income from operations of $34.9 million recorded in the prior year, representing 15.1% of revenue and other income, compared to 8.4% in the prior year. The increase is mainly due to the prior year Impairment Charge, along with higher income from operations at the Facilities, as a result of the prior year reversal of PPP income, and higher facility service revenue which exceeded the increase in operating expenses, as well as cost saving initiatives at the corporate level.

	Year Ended December 31,					
In thousands of U.S. dollars	**2023**	**Percentage of Revenue**	**2022**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	18,718	20.6%	8,221	11.2%	10,497	127.7%
OSH	4,712	5.9%	3,942	5.2%	770	19.5%
BHSH	17,933	16.9%	15,125	15.4%	2,808	18.6%
SFSH	34,124	23.2%	35,250	26.3%	(1,126)	(3.2%)
SCNC	919	9.5%	543	5.6%	376	69.2%
MFC Nueterra ASCs	105	0.9%	571	2.4%	(466)	(81.6%)
Corporate	(9,402)	n/a	(28,713)	n/a	19,311	67.3%
Income from operations	**67,109**	**15.1%**	**34,939**	**8.4%**	**32,170**	**92.1%**

Finance Costs

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, and re-measured at each reporting date, and the changes in fair value are included in net income for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the (i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest holders during the trailing twelve-month period ending on the reporting date, (ii) changes in the market price of the Corporation’s common shares, and (iii) fluctuations of the value of the Canadian dollar against the U.S. dollar. The change in value of the exchangeable interest liability increased by $11.0 million, attributable to variations in all three factors when comparing the current year to the prior year.

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

In thousands of U.S. dollars, except as indicated otherwise	December 31, 2023	December 31, 2022	Change	December 31, 2022	December 31, 2021	Change
Number of common shares to be issued for exchangeable interest liability	5,913,560	6,297,268	(383,708)	6,297,268	6,161,517	135,751
Closing price of the Corporation's common shares	C$8.98	C$8.04	C$0.94	C$8.04	C$9.35	(C$1.31)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3247	$1.3554	($0.0307)	$1.3554	$1.2640	$0.0914
Exchangeable interest liability	**40,087**	**37,354**	**2,733**	**37,354**	**45,578**	**(8,224)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $0.1 million, which was primarily driven by the variation in distributions from the Facilities between the reporting periods.

Interest Expense, Net of Interest Income

Interest expense, net of interest income increased by $0.4 million mainly due to higher corporate credit facility interest expense due to the higher interest rate, partly offset by higher interest income, and lower corporate credit facility stand-by fees due to a lower balance available.

Impairment Loss on Loans Receivable

Impairment loss of $0.8 million recorded in the current year pertains to a certain Facility's loan receivable from an associate, which was written down to nil. Impairment loss of $12.0 million was recorded in the prior year on the loan receivable from an associate, as a result of re-evaluating the impairment loss allowance reserved (refer to Section 13 under the heading "Allowance for Loans Receivable" for a discussion on the calculation methodology).

Loss on Foreign Currency

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses are made in Canadian dollars. Foreign currency loss increased marginally due to the relative change in foreign exchange rates between the reporting periods.

Non-Operating (Gains) Losses

Gain on Sale of Subsidiaries and Equity Investments

A gain of $2.5 million was recorded on the sale of the MFC Nueterra ASCs in the current year.

Share of Equity Loss in Associates

Share of equity loss in associates of $0.3 million recorded in the current year pertains to a certain Facility's share of losses from an associate, subsequent to which the investment balance was nil. Share of equity loss in associates of $0.6 million was recorded in the prior year, mainly relating to the investment in St. Luke's ASC, which was divested in the current year.

Income Tax

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

	Year Ended December 31,			
In thousands of U.S. dollars	**2023**	**2022**	**$ Change**	**% Change**
Current income tax expense	4,025	3,082	943	30.6%
Deferred income tax expense	4,300	2,126	2,174	102.3%
Income tax expense	**8,325**	**5,208**	**3,117**	**59.9%**

The increase in current income tax expense versus last year was primarily due to the tax impact of the $12.0 million prior year impairment loss on the loan receivable from an associate. The increase in deferred income tax expense versus prior year was mainly due to a valuation allowance on the deferred tax asset created from the sale of the MFC Nueterra ASCs in the current year, partly offset by the change in the exchangeable interest liability.

Net Income

The $31.7 million increase in net income for the year ended December 31, 2023 was mainly attributable to the prior year Impairment Charge, as well as higher income from operations at the Facilities inclusive of the prior year reversal of PPP income, along with cost saving initiatives at the corporate level, and the current year gain recorded on the sale of the MFC Nueterra ASCs, partly offset by higher income tax expense.

EBITDA

EBITDA of $88.6 million for the year ended December 31, 2023 increased by $32.9 million from $55.7 million recorded a year earlier, representing 19.9% of revenue and other income compared to 13.4% a year earlier, mainly driven by the prior year Impairment Charge, as well as higher overall EBITDA at the Facilities, as a result of the prior year reversal of PPP income, and higher facility service revenue which exceeded the increase in operating expenses. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income for the year to EBITDA and Adjusted EBITDA."

Adjusted EBITDA

Adjusted EBITDA of $88.6 million for the year ended December 31, 2023 increased by $16.3 million from $72.3 million in the prior year, representing 19.9% of revenue and other income, versus 17.4% a year earlier. For a reconciliation of Adjusted EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income for the year to EBITDA and Adjusted EBITDA."

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results

Unaudited	2023				2022			
In thousands of U.S. dollars, except per share amounts	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue and other income								
Facility service revenue	122,265	104,579	109,488	109,250	119,434	102,167	102,162	100,788
Government stimulus income, net of reversals	-	-	-	-	(12,335)	-	363	1,810
	122,265	**104,579**	**109,488**	**109,250**	**107,099**	**102,167**	**102,525**	**102,598**
Operating expenses								
Salaries and benefits	34,937	32,896	32,680	33,522	33,736	32,370	31,347	29,899
Drugs and supplies	39,459	35,433	37,006	37,002	41,040	35,053	34,076	33,756
General and administrative expenses	17,335	18,508	18,577	19,581	17,042	19,134	15,559	19,126
Impairment of goodwill, other intangibles and equipment	-	-	-	-	16,549	-	-	-
Depreciation of property and equipment	2,301	2,352	2,428	2,447	2,300	2,328	2,315	2,345
Depreciation of right-of-use assets	2,587	2,711	2,727	2,676	2,898	2,696	2,608	2,635
Amortization of other intangibles	136	137	518	517	161	161	159	157
	96,755	**92,037**	**93,936**	**95,745**	**113,726**	**91,742**	**86,064**	**87,918**
Income (loss) from operations	**25,510**	**12,542**	**15,552**	**13,505**	**(6,627)**	**10,425**	**16,461**	**14,680**
Finance costs (income)								
Change in value of exchangeable interest liability	(1,277)	3,298	2,015	(1,303)	(11,036)	6,914	(14,405)	10,303
Interest expense on exchangeable interest liability	2,017	1,645	1,731	1,850	1,944	1,515	1,712	2,191
Interest expense, net of interest income	1,505	1,450	1,565	1,636	1,668	1,310	1,352	1,401
Impairment loss (gain) on loans receivable	-	786	-	-	(1,394)	9,394	-	3,990
Loss (gain) on foreign currency	(8)	28	10	4	(6)	(4)	3	10
	2,237	**7,207**	**5,321**	**2,187**	**(8,824)**	**19,129**	**(11,338)**	**17,895**
Non-operating (gains) losses								
Gain on sale of subsidiaries and equity investments	-	(2,487)	-	-	-	-	-	-
Share of equity loss (income) in associates	-	320	-	-	303	5	272	(6)
	-	**(2,167)**	**-**	**-**	**303**	**5**	**272**	**(6)**
Income (loss) before income taxes	**23,273**	**7,502**	**10,231**	**11,318**	**1,894**	**(8,709)**	**27,527**	**(3,209)**
Income tax expense (recovery)	2,962	2,709	1,002	1,652	5,231	(3,213)	5,284	(2,094)
Net income (loss) for the period	**20,311**	**4,793**	**9,229**	**9,666**	**(3,337)**	**(5,496)**	**22,243**	**(1,115)**
Attributable to:								
Owners of the Corporation	10,882	(114)	3,324	4,411	(2,274)	(10,453)	16,183	(7,861)
Non-controlling interest	9,429	4,907	5,905	5,255	(1,063)	4,957	6,060	6,746
Earnings (loss) per share attributable to owners of the Corporation:								
Basic	$0.44	($0.01)	$0.13	$0.17	($0.08)	($0.35)	$0.54	($0.26)
Fully diluted	$0.39	($0.01)	$0.13	$0.17	($0.26)	($0.35)	$0.19	($0.26)
Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA [(1)]								
Net income (loss) for the period	20,311	4,793	9,229	9,666	(3,337)	(5,496)	22,243	(1,115)
Income tax expense (recovery)	2,962	2,709	1,002	1,652	5,231	(3,213)	5,284	(2,094)
Non-operating (gains) losses	-	(2,167)	-	-	303	5	272	(6)
Finance costs (income)	2,237	7,207	5,321	2,187	(8,824)	19,129	(11,338)	17,895
Depreciation of property and equipment	2,301	2,352	2,428	2,447	2,300	2,328	2,315	2,345
Depreciation of right-of-use assets	2,587	2,711	2,727	2,676	2,898	2,696	2,608	2,635
Amortization of other intangibles	136	137	518	517	161	161	159	157
EBITDA [(1)]	**30,534**	**17,742**	**21,225**	**19,145**	**(1,268)**	**15,610**	**21,543**	**19,817**
Impairment of goodwill, other intangibles and equipment	-	-	-	-	16,549	-	-	-
Adjusted EBITDA [(1)]	**30,534**	**17,742**	**21,225**	**19,145**	**15,281**	**15,610**	**21,543**	**19,817**

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

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

- Facility service revenue varies directly in relation to the number of cases performed as well as to the type of cases performed and the payor. For example, 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.

- As part of the CARES Act and other stimulus legislation in response to the COVID-19 pandemic, the Facilities received financial assistance and recorded the funds as government stimulus income during 2022. In the fourth quarter of 2022, the Corporation recorded a reversal of PPP income (refer to Section 3 of this MD&A under the heading "Government Stimulus").
- The changes in operating expenses are generally consistent with fluctuations in case volumes and case mix. Operating expenses have also been impacted by costs related to SFSH's ACO, as well as a management agreement for SFSH's orthopedic service line (refer to Section 12 of this MD&A under the heading "Related Party Transactions"). Operating expenses and revenue have been further impacted by certain Facilities moving their anesthesia service and related billing in-house, in order to secure uninterrupted services, as was the case with ASH beginning January 2022, and SFSH beginning January 2023.
- Since the fourth quarter of 2022, the Corporation has executed its plan to reduce overhead costs primarily through a reorganization of executive staff, as well as reductions across all other departments, resulting in significant savings in salaries and benefits, and G&A at the corporate level.
- Due to the underperformance at certain MFC Nueterra ASCs, management assessed and recorded an impairment of goodwill, other intangibles and equipment in 2022.
- In addition, revenue and operating expenses have been impacted by sales of assets and non-controlling interests in 2022, and the divestiture of the MFC Nueterra ASCs in 2023.
- 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 holders during the trailing twelve-month period ending on the reporting date, (ii) the changes in the market price of the Corporation's common shares, and (iii) the fluctuations of the value of the Canadian dollar against the U.S. dollar. During 2022 and 2023, the fluctuations in the change in value of the exchangeable interest liability were attributable to variations in all three factors.
- 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 changes in impairment loss (gain) on loans receivable are mainly a result of re-evaluating the impairment loss allowance reserved on the loans receivable from associates at the end of each reporting period. As of December 31, 2023, the loans were fully impaired or settled.
- The fluctuations in foreign currency have been driven by the movements of exchange rate of the Canadian dollar in relation to U.S. dollar between the reporting periods.
- Fluctuations in current income taxes have been driven by the changes in operating performance of the Facilities, the deductibility of corporate expenses, intercompany interest expense deductions, and taxable (deductible) foreign exchange gains (losses). Fluctuations in deferred income taxes have been driven primarily by the changes in the exchangeable interest liability and Canadian cumulative tax operating loss carryforwards, along with the impact of U.S. tax reform pursuant to the recent U.S. federal tax law changes.

7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

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

		Three Months Ended December 31, *Unaudited*		Year Ended December 31,	
In thousands of U.S. dollars, except as indicated otherwise		2023 $	2022 $	2023 $	2022 $
NET CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**19,830**	**17,598**	**72,714**	**57,013**
Non-controlling interest in cash flows of the Facilities [(1)(2)]		(11,653)	(10,271)	(32,931)	(33,110)
Interest expense on exchangeable interest liability [(3)]		2,017	1,944	7,243	7,362
Payment of lease liabilities [(4)]		(3,273)	(3,364)	(12,751)	(12,496)
Maintenance capital expenditures [(5)]		(1,830)	(1,513)	(5,650)	(4,470)
Difference between accrual-based amounts and actual cash flows related to interest and taxes [(6)]		(1,699)	(3,157)	(78)	(5,626)
Net changes in non-cash operating working capital [(7)(8)]		7,791	6,858	488	18,546
Stock options expense, net of gain on forfeitures [(9)]		(14)	805	476	667
Repayments of notes payable by the Facilities [(10)]		(1,795)	(1,609)	(7,060)	(6,726)
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**9,374**	**7,291**	**22,451**	**21,160**
	CDN	**12,769**	**9,900**	**30,302**	**27,536**
DISTRIBUTIONS	**CDN**	**1,991**	**2,086**	**8,085**	**9,302**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE [(11)]	**CDN**	**$0.512**	**$0.364**	**$1.200**	**$0.938**
TOTAL DISTRIBUTIONS PER COMMON SHARE [(11)]	**CDN**	**$0.080**	**$0.077**	**$0.320**	**$0.317**
PAYOUT RATIO		**15.6%**	**21.2%**	**26.7%**	**33.8%**
Average exchange rate of Cdn$ to US$ for the period		1.3622	1.3578	1.3497	1.3013
Basic weighted average number of common shares outstanding		24,916,232	27,226,320	25,254,834	29,366,985

[(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. This is calculated by multiplying the distributable cash flows from each Facility with the respective ownership share of the non-controlling interest holders.*

[(2)] *Excludes the non-cash impact of the prior year PPP income reversal from government stimulus income of $5.5 million, which represents the non-controlling interest share, for the three months and year ended December 31, 2022, for comparability.*

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

[(4)] *Payment of lease liabilities represents rent payments on principal portions of lease liabilities and is deducted in determining cash available for distribution as this is a cash item included in cash flows from financing activities in the Corporation's consolidated statements of cash flows.*

[(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. Maintenance capital expenditures, together with major capital expenditures, comprise the purchase of property and equipment, which is included in cash flows from investing activities in the Corporation's consolidated statements of cash flows.*

[(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, and income and withholding taxes is included in the table above.*

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

[(8)] *As presented in the Corporation's consolidated statements of cash flows, excluding the non-cash impact of the prior year PPP income reversal from government stimulus income of $12.3 million for the three months and year ended December 31, 2022, for comparability.*

[(9)] *Stock options expense, net of gain on forfeitures, represents a charge included in salaries and benefits in the period which does not have a cash impact until the underlying stock options vest. As a non-cash item, this expense is added back in the calculation of cash available for distribution. It is included in the Corporation's consolidated statements of changes in equity.*

[(10)] *Repayments of notes payable by the Facilities, which comprises of interest and principal repayments on non-revolving debt obligations, reflects contractual obligations of the Facilities and is deducted in the calculation of cash available for distribution. It is included in cash flows from financing activities in the Corporation's consolidated statements of cash flows.*

[(11)] *Calculated based on the basic weighted average number of common shares outstanding.*

Cash available for distribution in the three months ended December 31, 2023 (Cdn$12.8 million) increased by Cdn$2.9 million compared to the cash available for distribution the same period last year (Cdn$9.9 million). On a per common share basis, cash available for distribution of Cdn$0.512 increased by Cdn$0.148, or 40.7% from the same period last year of Cdn$0.364. The distributions per common share of Cdn$0.080 increased by Cdn$0.003, or 3.9% from the same period last year of Cdn$0.077, resulting in a payout ratio of 15.6% as compared to a payout ratio of 21.2% in the same period in 2022.

Cash available for distribution in the year ended December 31, 2023 (Cdn$30.3 million) increased by Cdn$2.8 million compared to the cash available for distribution the prior year (Cdn$27.5 million). On a per common share basis, cash available for distribution of Cdn$1.200 increased by Cdn$0.262, or 27.9% from the prior year of Cdn$0.938. The distributions per common share of Cdn$0.320 increased by Cdn$0.003, or 0.9% from the prior year of Cdn$0.317, resulting in a payout ratio of 26.7% as compared to a payout ratio of 33.8% in the prior year.

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

	Three Months Ended December 31, *Unaudited*		**Year Ended December 31,**	
In thousands of U.S. dollars	**2023 $**	**2022 $**	**2023 $**	**2022 $**
Cash flows from the Facilities:				
Income before interest expense, depreciation and amortization [1]	32,197	28,756	96,532	95,749
Debt service costs:				
Interest	(539)	(592)	(1,874)	(2,020)
Repayment of non-revolving debt	(1,795)	(1,609)	(7,060)	(6,726)
Maintenance capital expenditures	(1,830)	(1,513)	(5,650)	(4,470)
Payment of lease liabilities	(3,261)	(3,326)	(12,573)	(12,329)
Non-cash loss (gain)	40	(4)	18	(9)
Cash available for distribution at the Facility level	24,812	21,712	69,393	70,195
Non-controlling interest in cash available for distribution at the Facility level [2]	(11,653)	(10,271)	(32,931)	(33,110)
Corporation's share of the cash available for distribution at the Facility level	**13,159**	**11,441**	**36,462**	**37,085**
Corporate expenses	(1,693)	(1,489)	(8,124)	(12,054)
Interest on corporate credit facility	(376)	(445)	(1,862)	(789)
Provision for current income taxes	(1,716)	(2,216)	(4,025)	(3,082)
Cash available for distribution	**9,374**	**7,291**	**22,451**	**21,160**

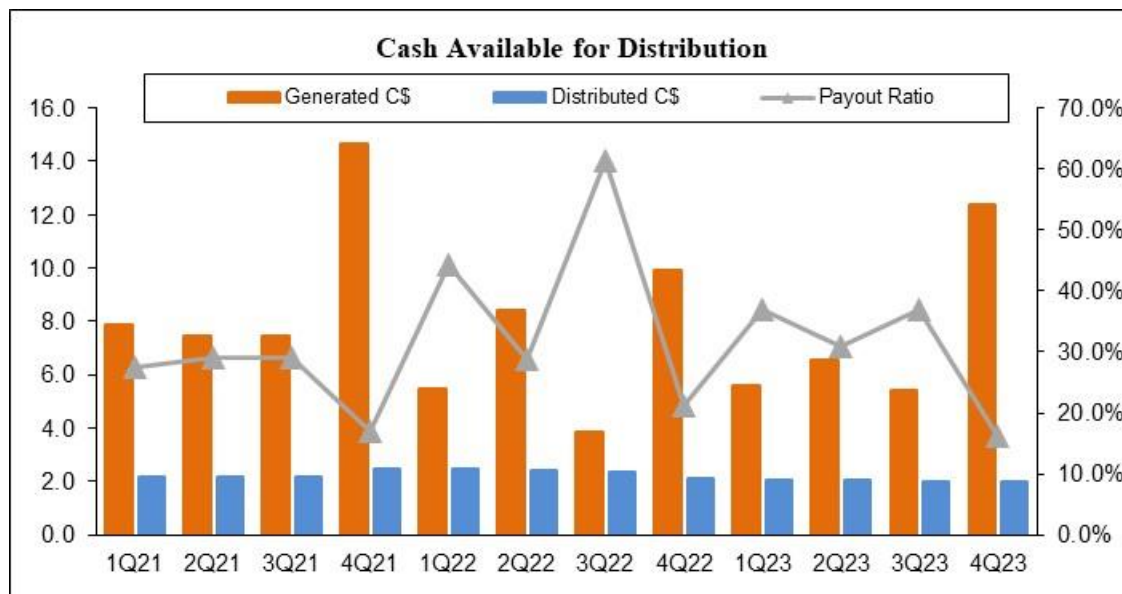
[1] *Excludes the non-cash impact of the prior year PPP income reversal from government stimulus income of $12.3 million for the three months and year ended December 31, 2022, for comparability.*

[2] *Excludes the non-cash impact of the prior year PPP income reversal from government stimulus income of $5.5 million, which represents the non-controlling interest share, for the three months and year ended December 31, 2022, for comparability.*

Compared to the three months ended December 31, 2022, the cash available for distribution in U.S. dollars for the same period this year increased by $2.1 million or 28.6% mainly due to higher income from Facilities, and lower current taxes, partly offset by higher maintenance capital expenditures at the Facilities, and higher corporate expenses.

Compared to the year ended December 31, 2022, the cash available for distribution in U.S. dollars for this year increased by $1.3 million or 6.1% mainly due to lower corporate expenses, and higher income from Facilities, partly offset by higher maintenance capital expenditures at the Facilities, higher corporate credit facility interest, and higher current taxes.

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



8. OUTLOOK

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

Management’s expectations could be impacted by the general state of the U.S. economy, which is experiencing disruptions stemming from geopolitical pressures, including impacts on the supply chain, with ongoing delays and increased lead times in acquiring supplies. This has been compounded by inflationary pressures which have driven up operating costs, and higher borrowing costs from rising interest rates, which have increased the risk of a potential recession and a corresponding impact on elective surgery volume. The strength of the local economies of the areas served by the Corporation’s Facilities is an important factor in the Corporation’s outlook.

Healthcare Industry

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

- the challenge of continuing pressure on reimbursement levels from U.S. government-funded plans (Medicare, Medicaid and similar plans) and private insurance companies, combined with the increasing share of case volume that such plans represent;

- the opportunity for additional case volumes arising from ownership of, and participation in, ACOs and the related challenge of payor mix shifting to Medicare plans;
- the opportunity arising from reimbursement incentives which reward healthcare entities that meet specified quality and operational goals and operate in the most efficient and cost-effective manner; and
- an increased demand for services provided by the Corporation's Facilities due to the increasing average age and life expectancy of the U.S. population, overall population growth and advances in science and technology.

Changes in the U.S. federal government's political priorities could have potential implications on the healthcare industry, but the likelihood of a repeal of the PPACA has diminished with the current U.S. administration.

Hospitals throughout the U.S. continue to face a shortage of nurses and other healthcare workers, compounded by the COVID-19 pandemic, impacting the ability of hospitals to operate at full capacity. The shortage has led hospitals, including the Facilities, to accelerate their hiring processes and offer enhanced salary and benefit packages to attract and retain staff. The full duration and impact of this shortage is indeterminable at this time.

Management Strategies

Management is committed to increasing shareholder value, primarily through continued organic growth at its current Facilities. On September 13, 2022, the Corporation announced that it has made a determination to shift its focus away from deploying a growth strategy through acquisitions. This change in corporate strategy includes the following:

- suspension of acquisitions;
- divestiture of non-core assets;
- pursuit of overhead cost reductions; and
- evaluation and implementation of strategies to return capital to its shareholders.

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 physicians, based on community needs;
- expanding the complement of service offerings at the Facilities;
- expansion of ancillary businesses (ASCs, imaging and urgent care services) at the SSHs, within existing markets; and
- sharing and implementing best practices and cost reduction strategies, with emphasis on supply chain and implant costs.

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 potential carryforwards of disallowed current year interest expense deductions to future years. Pursuant to the *Tax Cuts and Jobs Act*, MFA's deductions attributable to the interest expense on the promissory note (the interest paid by MFA on all debt, including the MFA promissory note, less its interest income) will be limited to 30% of adjusted taxable income, which generally represented EBITDA until last year (2022), versus earnings before interest and taxes thereafter (2023 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.

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 this 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 are as follows:

In thousands of U.S. dollars	**December 31, 2023**	**December 31, 2022**
Cash and cash equivalents at the Facility level	14,583	19,339
Cash and cash equivalents at the corporate level	9,530	15,587
Cash and cash equivalents	**24,113**	**34,926**

Cash Flow Activity

Cash Flow

	Year Ended December 31,			
In thousands of U.S. dollars	**2023**	**2022**	**$ Change**	**% Change**
Cash provided by operating activities	72,714	57,013	15,701	27.5%
Cash used in investing activities	(13,667)	(5,775)	(7,892)	(136.7%)
Cash used in financing activities	(69,826)	(77,353)	7,527	9.7%
Decrease in cash and cash equivalents	**(10,779)**	**(26,115)**	**15,336**	**58.7%**
Effect of exchange rate fluctuations on cash balances held	(34)	(3)	(31)	(1,033.3%)
Cash and cash equivalents, beginning of the year	34,926	61,044	(26,118)	(42.8%)
Cash and cash equivalents, end of the year	**24,113**	**34,926**	**(10,813)**	**(31.0%)**

The Corporation expects to fund operations with cash derived from operating activities. Deficiencies arising from short-term working capital requirements and capital expenditures may be financed on a short-term basis with bank indebtedness, funds available from the corporate credit facility, as well as lines of credit at the Facilities' level, or on a permanent basis with offerings of securities of the Corporation. Negative changes in the general state of the U.S. economy could affect the Corporation's liquidity by reducing cash generated from operating activities or by limiting access to short-term financing as a result of tightening credit markets.

Operating Activities and Working Capital

Cash from operating activities in the year ended December 31, 2023 increased by $15.7 million, primarily due to higher income from the Facilities' operations, and prior year repayments of government stimulus advances, partly offset by prior year tax refunds.

As of December 31, 2023, the Corporation had consolidated net working capital of $19.8 million compared to $32.5 million as of December 31, 2022. The change in consolidated net working capital compared to prior year

was mainly due to decreases in cash and cash equivalents, prepaid expenses and other receivables, and accounts receivable, along with an increase in the current portion of long-term debt, partly offset by decreases in accounts payable, obligation for purchase of common shares, and accrued liabilities. The level of working capital, including financing required to cover any deficiencies, is dependent on the operating performance of the Facilities and fluctuates from period to period.

As of December 31, 2023, accounts receivable were $61.8 million (December 31, 2022: $64.0 million), accounts payable and accrued liabilities totaled $43.8 million (December 31, 2022: $48.6 million), total assets were $354.9 million (December 31, 2022: $377.8 million) and total long-term liabilities, excluding exchangeable interest liability, were $113.5 million (December 31, 2022: $138.9 million).

Investing Activities

The $7.9 million increase in cash used in investing activities for the year ended December 31, 2023 was mostly due to an increase in purchases of property and equipment ($9.3 million), along with prior year proceeds from the sale of non-controlling interests ($1.5 million), partly offset by the proceeds from the sale of the MFC Nueterra ASCs in the current year, net of cash disposed ($2.4 million), and the prior year investment in St. Luke's ASC ($0.5 million).

Financing Activities

The $7.5 million decrease in cash used in financing activities for the year ended December 31, 2023 was mainly due to the prior year purchase of common shares under a substantial issuer bid ($25.9 million), the decrease in purchase of common shares under normal course issuer bids ($5.1 million), and a decrease in dividends paid by the Corporation ($1.4 million), partly offset by higher net repayments of credit facilities and other borrowings at both the Facility and corporate levels ($22.1 million), the decrease in loans receivable from associates ($1.5 million), higher Facility distributions to non-controlling interest ($0.9 million), and higher payment of lease liabilities ($0.3 million).

The Facilities have available credit facilities in place in the aggregate amount of $26.9 million, of which $12.1 million was drawn as of December 31, 2023. The balances available under the credit facilities, combined with cash and cash equivalents as of December 31, 2023, are available to manage the Facilities' accounts receivable, supply inventory and other short-term cash requirements.

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

The Corporation has in place a $75.0 million line of credit with a syndicate of two Canadian chartered banks which matures on August 31, 2025 ("Credit Facility"). The Credit Facility can be used for general corporate purposes, including working capital and capital expenditures, finance of acquisitions, and/or repurchase of the Corporation's common shares. As of December 31, 2023, $16.0 million was drawn and remained outstanding for the Credit Facility. The Corporation repaid $20.0 million of its outstanding balance during the year ended December 31, 2023. As of December 31, 2023, the Corporation was in compliance with all of its debt covenants.

Contractual Obligations

The mandatory repayments under the credit facilities and other contractual obligations and commitments including expected interest payments, on a non-discounted basis, as of December 31, 2023, are as follows:

		Future payments (including principal and interest)				
In thousands of U.S. dollars **Contractual Obligations**	**Carrying values at December 31, 2023** **$**	**Total** **$**	**Less than 1 year** **$**	**2-3 years** **$**	**4-5 years** **$**	**After 5 years** **$**
Dividends payable	1,503	1,503	1,503	-	-	-
Accounts payable	23,152	23,152	23,152	-	-	-
Accrued liabilities	20,694	20,694	20,694	-	-	-
Income tax payable	10	10	10	-	-	-
Obligation for purchase of common shares	2,136	2,136	2,136	-	-	-
Government stimulus funds repayable	11,957	11,957	11,957	-	-	-
Corporate credit facility	16,000	17,790	1,075	16,715	-	-
Facilities' revolving credit facilities	12,105	12,732	9,625	3,107	-	-
Notes payable	40,994	46,098	6,625	17,847	21,546	80
Lease liabilities	47,710	56,021	11,400	17,693	14,970	11,958
Total contractual obligations	**176,261**	**192,093**	**88,177**	**55,362**	**36,516**	**12,038**

The Corporation anticipates renewing, extending, repaying or replacing its credit facilities that are 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 this 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 December 31, 2023:

Optionee	**Number of Options Held**	**Number of Options Vested**	**Exercise Price**	**Grant Date**
Chief Financial Officer	300,000	-	C$12.79	June 24, 2019
Former Chief Executive Officer	223,562	223,562	C$17.24	May 1, 2016
Former Chief Financial Officer	221,344	221,344	C$17.98	November 21, 2016
Total number of outstanding options	**744,906**	**444,906**		

Outstanding options (the "Options") vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of December 31, 2023, 444,906 of the Options relating to the Former Chief Executive Officer and the Former Chief Financial Officer are vested. During the year ended December 31, 2023, 350,000 Options relating to the Former CDO were forfeited.

As of December 31, 2023, the Corporation had 24,724,462 common shares outstanding.

Substantial Issuer Bid

On October 31, 2022, the Corporation completed a substantial issuer bid, by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Corporation (the "Offer"). The Corporation purchased and cancelled 3,053,097 of its common shares at a price of Cdn$11.30 per common share under the Offer, representing an aggregate purchase price of $25.5 million, or approximately 10.38% of the Corporation's issued and outstanding common shares before giving effect to the Offer. The Corporation also incurred transaction costs of $0.4 million related to the Offer, which were recorded against share capital during the year ended December 31, 2022.

Normal Course Issuer Bids

The Corporation has a normal course issuer bid ("NCIB"), allowing the Corporation to repurchase up to 2,481,256 of its common shares, in effect from December 1, 2023 to November 30, 2024. A previous NCIB for up to 2,615,186 of the Corporation's common shares was in effect from December 1, 2022 to November 30, 2023. During the year ended December 31, 2023, the Corporation purchased 1,191,500 of its common shares for a total consideration of $7.4 million from the open market. During the year ended December 31, 2022, the Corporation purchased 1,827,200 of its common shares for a total consideration of $12.5 million from the open market.

Dividends

Dividend declarations are determined based on periodic reviews of the Corporation's earnings, capital expenditures and related cash flows. Such declarations take into account that the cash generated in the period is to be distributed after considering (i) debt service obligations, (ii) other expense and tax obligations, (iii) reasonable reserves for working capital and capital expenditures, and (iv) financial flexibility. Cash distributions declared in the year from January 1, 2023 to December 31, 2023 totaled Cdn$0.3220 per common share.

Dividend Reinvestment and Share Purchase Plan

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

11. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the consolidated balance sheet as of December 31, 2023 consist of cash and cash equivalents, accounts receivable, dividends payable, accounts payable, accrued liabilities, income tax payable, obligation for purchase of common shares, borrowings (including long-term debt and corporate credit facility) and exchangeable interest liability.

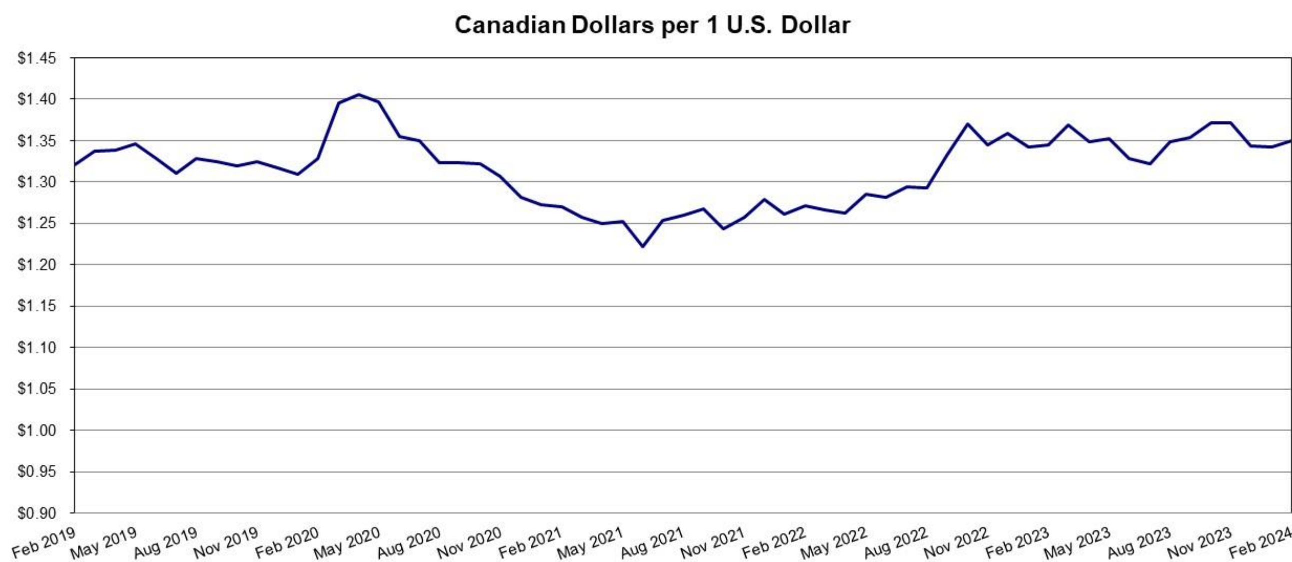
The fair value of the exchangeable interest liability is determined based on the closing trading price of the Corporation's common share price at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these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

Foreign Exchange Risk

The Facilities derive revenue, incur expenses and make distributions to their owners, including the Corporation, in U.S. dollars. The Corporation pays dividends to common shareholders and incurs a portion of its expenses in Canadian dollars. The amounts of distributions from the Facilities to their owners, including the Corporation and non-controlling interest holders, 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 February 2019:



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 December 31, 2023, the Corporation did not hold any foreign exchange forward contracts.

Credit Risk

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

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

Interest Rate Risk

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

Share Price Risk

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

Liquidity Risk

Liquidity risk is the risk that the Corporation, including its Facilities, will not be able to meet its financial obligations as they become 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 outside 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 year ended December 31, 2023 of $4.5 million (December 31, 2022: $4.5 million).

Certain Facilities routinely enter into transactions with related parties for the provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

SFSH has a 50% ownership share in an ACO through a wholly-owned subsidiary that also provides management services to the 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		Year Ended December 31,	
Entity	**Nature of services or goods received**	**2023** **$**	**2022** **$**
ASH	Lease of facility building and anesthesia equipment.	4,451	4,448
OSH	Lease of hospital building and office space.	2,544	2,544
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	2,042	2,505
SFSH	Provision of management services in relation to orthopedic service line and ACO, physician professional fees, anesthesia services, physical and occupational therapy services, medical products and implants, lithotripter services, laundry services, facility and related equipment, shared services, and lease of urgent care building.	12,576	11,170
MFC Nueterra ASCs	Provision of management services, physician professional services, and lease of ASC building.	810	1,922
Total		**22,423**	**22,589**

13. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The Corporation estimates certain amounts reflected in its financial statements based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes. Note 20.23 to the Corporation's financial statements details significant accounting judgments and estimates used in the preparation of the financial statements.

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

Revenue

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

Allowance for Non-Collectible Receivable Balances

The Facilities maintain an allowance for non-collectible receivable balances for estimated losses resulting from the inability to collect on its accounts receivable. Estimation of allowance for non-collectible receivable balances involves uncertainty about future collections which could differ from the original estimates. The allowance for non-collectible receivable balances is subject to change as general economic, industry and customer specific conditions change.

Allowance for Loans Receivable

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

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

Based on assessments during the current year, management recorded an impairment loss of $0.8 million on the loans receivable during the year ended December 31, 2023.

Impairment of Non-Financial Assets

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

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

Management has identified five CGUs for which impairment testing is performed annually and if a triggering event has occurred requiring an impairment test to be completed. The Facilities represent subsidiary operations which are independent of each other and are therefore identified as separate CGUs.

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

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

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

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

Management performed an assessment of the impairment indicators mentioned above as of December 31, 2023, and determined that there has been no impairment of non-financial assets, including goodwill and other intangibles.

Taxes

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

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

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

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

Under the supervision of, and with the participation of the CEO and the CFO, management has designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Corporation, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities for the period in which the annual and interim filings of the Corporation are being prepared, and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or

other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

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

Management, including the CEO and the CFO, performed an evaluation of the effectiveness of DC&P as of December 31, 2023, and has concluded that the design and effectiveness of these controls and procedures at December 31, 2023 provide reasonable assurance that material information relating to the Corporation, including its subsidiaries, was made known to the CEO and CFO on a timely basis to ensure adequate disclosure.

Management, including the CEO and the CFO, performed an evaluation of the effectiveness of its ICFR as of December 31, 2023 using the COSO framework. Management has concluded that the overall design and effectiveness of these controls at December 31, 2023 provide reasonable assurance of the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

There have been no changes in the Corporation's ICFR during the period beginning on October 1, 2023 and ended on December 31, 2023, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

15. RISK FACTORS

The following information is a summary of risk factors and is qualified in its entirety by reference to, and must be read in conjunction with the detailed information appearing in the Corporation's most recently filed annual information form available on SEDAR+ at www.sedarplus.ca.

Risks Related to the Business and the Industry of the Corporation

The revenue and profitability of the Corporation and its subsidiaries, including the Facilities, depend heavily on payments from third-party payors, including government healthcare programs (Medicare and Medicaid) and managed care organizations, which are subject to frequent regulatory changes and cost containment initiatives. Changes in the terms and conditions of, or reimbursement levels under, insurance or healthcare programs, which are typically short-term agreements, could adversely affect the revenue and profitability of the Corporation. The Corporation's revenue and profitability could be impacted by its ability to obtain and maintain contractual arrangements with insurers and payors active in its service areas and by changes in the terms of such contractual arrangements.

The revenue and profitability of the Facilities is dependent upon physician relationships. There can be no assurance that physician groups performing procedures at the Facilities will maintain successful medical practices, or that one or more key members of a particular physician group will continue practicing with that group or that the members of that group will continue to perform procedures at the Facilities at current levels or at all. The Facilities face increasing competition to recruit and retain physicians, an effort which continues to be a challenge due to physician aging and retirement.

In some markets, the lack of availability of clinical personnel, such as nurses, has become a significant operating issue facing all healthcare providers. This shortage may require the Facilities to enhance wages and benefits to recruit and retain qualified personnel or to contract for more expensive temporary personnel. If labour costs increase, the Facilities may not be able to raise rates to offset these increased costs.

The trend of rising drug costs is currently challenging to counteract and puts downward pressure on the Facilities' operating margins as they have limited control over price increases.

Healthcare facilities, such as the Facilities, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Receipt and renewal of such licenses, certifications and accreditations are often based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative compliance actions by the Facilities that could be burdensome and expensive.

There are a number of U.S. federal and state regulatory initiatives, which apply to healthcare providers, and in particular to SSHs, including the Facilities. Among the most significant are the federal Anti-Kickback Statute, the federal physician self-referral law (commonly referred to as the Stark Law), the PPACA, the *False Claims Act* and the federal rules relating to management and protection of patient records and patient confidentiality.

The PPACA contains provisions that prohibit the formation or development of any new physician-owned hospitals in the United States after a specified date. However, the grandfathering provisions of the law permit existing physician-owned hospitals, such as the SSHs, to continue their operations and billings to government payors like Medicare and Medicaid for hospital services, provided they meet certain investment and patient transparency requirements. The law, among other things:

(a) prohibits the existing or grandfathered hospitals from expanding the baseline number of overnight beds, operating rooms or procedure rooms from the number of such rooms that the existing hospital had as of the date of enactment of the legislation, unless certain narrowly drawn growth criteria are met;

(b) prohibits increases in the aggregate percentage value of physician ownership or investment in physician-owned hospitals, or in entities whose investments include the hospitals;

(c) imposes restrictions on the manner of physician investment in physician-owned hospitals; and

(d) requires disclosure to patients of physician ownership and requires hospitals to obtain a signed patient acknowledgement as to whether the hospital has physicians present 24 hours a day, seven days a week.

The Corporation conducted an extensive review to ensure that the Facilities operating agreements and procedures are in compliance with the provisions and limitations of the PPACA. The Facilities have updated their operating agreements and procedures as necessary to ensure compliance with the requirements of the PPACA.

While the Facilities carry general and professional liability insurance against claims arising in the ordinary course of business, the insurance market is dynamic and there can be no assurance that adequate coverage will be available in the future or that any coverage in place will be adequate to cover claims.

Any major capital expenditures at the Facilities will require additional capital, which may be funded through additional debt or equity financings. These funding sources could result in significant additional interest expense or ownership dilution to current holders of the Corporation's securities.

There is significant competition in the healthcare business. The Facilities compete with other healthcare facilities in providing services to physicians and patients, contracting with managed care payors and recruiting qualified staff.

The Facilities may be vulnerable to economic downturns and may be limited in their ability to withstand such financial pressures. Increased unemployment or other adverse economic conditions may impact the volume of services performed, cause shifts to payors with lower reimbursements (e.g., Medicare) and/or result in higher uncollectible accounts.

Maintenance capital expenditures, which are deducted in the calculation of cash available for distribution (please refer to Section 2 under the heading "Non-IFRS Financial Measures" and Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures"), represent expenditures that are required to maintain the productive capacity of the Facilities. Historically, such expenditures have represented on average 1.0% of revenue of the Facilities. Management believes that such level of maintenance capital expenditures will continue in the future and, accordingly, will not adversely impact the cash available for distribution generated by the Corporation.

Public Health Crises and Disease Outbreaks

The Corporation's and the Facilities' operations and financial results could be materially adversely impacted by public health crises relating to viruses, flus, pandemics, epidemics, or outbreaks of infectious diseases.

A public health crisis, such as the COVID-19 pandemic, could result in a general or acute decline in economic activity in the regions where the Facilities operate, increased unemployment, staff shortages, mobility restrictions and other quarantine measures, supply shortages, increased government regulation, and the temporary closure of one or more of the Facilities in accordance with governmental restrictions and/or to protect patients, hospital staff and the communities in which they operate. In addition, treatment of patients with highly contagious diseases at the Facilities, or infection of physicians and/or hospital staff, or physical distancing or other precautionary measures, could result in patients cancelling or deferring elective procedures or otherwise avoiding medical treatment, leading to reduced patient volumes and revenues. All of these occurrences may have a material adverse effect on the Corporation's business, cash flows, financial condition and results of operations, and ability to pay dividends to its common shareholders.

The COVID-19 Public Health Emergency in the U.S. ended on May 11, 2023.

Cyber Security Incidents

As providers of healthcare services, information technology is a critical component of the day-to-day operation of the Facilities. The Facilities rely on information technology to create, process, transmit and store sensitive and confidential data, including protected health information, personally identifiable information, and proprietary and confidential business performance data. The Facilities utilize electronic health records, payment processing platforms, and other health information technology, along with additional technology systems, in connection with their operations, including for, among other things, medical systems, billing and supply chain, and labour management. The Facilities' information systems and applications also require continual maintenance, upgrading and enhancement to meet their operational needs. If the Facilities experience difficulties with the transition and integration of information systems or are unable to implement, maintain, or expand their systems properly, the Facilities could suffer from, among other things, operational disruptions, regulatory problems and increases in administrative expenses. The Facilities have privacy and security processes in place to protect sensitive health and business information. The systems used by the Facilities, in turn, interface with and rely on third-party systems. Incident response policies and processes are in place at Facilities that strive to identify and provide for prompt identification and management of security incidents to facilitate maintenance and/or restoration of business continuity. The Corporation is not aware of the Facilities having experienced a material data breach.

The preventive actions taken to reduce the risk of such incidents and protect information and technology resources may not be sufficient. In general, Facilities' information systems are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, human acts, cyber attacks, break-ins and similar events. Facilities' business is at risk from and may be impacted by information security incidents, including ransomware, malware, phishing, social engineering, distributed denial of service attacks, zero-day attacks, and other security events suffered by the Facilities or their business associates. Such incidents can range

from individual attempts to gain unauthorized access to information technology systems to more sophisticated security threats. These events can also result from internal compromises, such as human error or malicious acts. These events can occur on Facilities' systems or on the systems of their partners and subcontractors. Problems with, or the failure of, Facilities' technology and systems or any system upgrades or programming changes associated with such technology and systems could have a material adverse effect on Facilities' operations, patient care, data capture, medical documentation, billing, collections, assessment of internal controls and management and reporting capabilities. The trade secrets or confidential business information of the Facilities could also be exposed as a result of a security incident.

As cyber security threats continue to evolve, the Facilities may not be able to anticipate certain attack methods in order to implement effective protective measures, and may be required to expend significant additional resources to continue to modify and strengthen security measures, investigate and remediate any vulnerabilities in information systems and infrastructure, or invest in new technology designed to mitigate security risks. Third parties to whom the Facilities outsource certain functions, or with whom their systems interface, are also subject to the risks outlined above and may not have or use appropriate controls to protect confidential information. A breach or attack affecting a third-party service provider or partner could harm the Corporation's business even if the Corporation does not control the service that is attacked.

Although the Corporation and the Facilities have insurance against some cyber risks and attacks, it may not be sufficient to offset the impact of a material loss event. Any cyber security breach or system interruption could result in harm to patients, inability to service patients, inability to run day-to-day operations of the Facilities, or the unauthorized disclosure, misuse or loss of confidential, sensitive or proprietary information, could negatively impact the ability of the Facilities to conduct normal business operations (including the collection of revenues), and could result in investigations and potential liability under privacy, security, consumer protection or other applicable laws, regulatory penalties, class action litigation, negative publicity and damage to the Corporation's and Facilities' reputation, any of which could have a material adverse effect on the Corporation's and Facilities' business, financial position, results of operations or cash flows.

Disasters and Similar Events

The occurrences of natural and man-made disasters and similar events in the regions where the Facilities operate, including flooding, hurricanes, tornadoes, earthquakes, winter storms, wildfires, or other factors beyond the Corporation's control, may damage some or all of the Facilities, interrupt utility service to some or all of the Facilities, disrupt patient scheduling, displace patients, employees and physician partners, or otherwise impair the operation of some or all of the Facilities or the generation of revenues from the Facilities. Furthermore, the impact, or impending threat, of a natural disaster may require evacuation of one or more Facilities, which may be costly and may involve risks for the patients.

Risks induced by climate change may have future adverse effects on the Corporation's business. In addition to the physical risks mentioned above, these also include transition risks e.g. regulatory changes and reputational risks. The Facilities continuously look for ways to make their operations more sustainable, updating their infrastructure through various initiatives, which include:

(a) decreasing energy consumption by replacing lighting systems, older fixtures and equipment with more energy-efficient alternatives;

(b) increasing water conservation by changing vacuum pumps from water cooled to air cooled and installing water aerators on faucets; and

(c) implementing recycling programs for paper, plastic, and aluminum.

Although the Corporation has not identified significant risks induced by climate change that could negatively and materially affect its financial statements, management continues to assess the impact of climate-related matters.

Risks Related to the Structure of the Corporation

The Corporation is entirely dependent on the operations and assets of the Facilities through the indirect ownership of between 51.0% and 64.0% of these Facilities. Future dividend payments by the Corporation are not guaranteed and are totally dependent upon the operating results and related cash flows from the Facilities and the limitations of applicable laws.

The payout by the Facilities and the Corporation of a substantial majority of their operating cash flows will make additional capital and operating expenditures dependent on increased cash flows or additional financing in the future.

The Corporation's dividend payments to its common shareholders are denominated in Canadian dollars, whereas all of its revenue is denominated in U.S. dollars. To the extent that future dividend payments are not covered by foreign exchange forward contracts, the Corporation is exposed to currency exchange risk.

Non-compete agreements executed by physician owners of the non-controlling interests in the Facilities may not be enforceable. This lack of enforceability could impact the revenue and profitability of the Facilities.

The Corporation does not have the ability to direct day-to-day governance or management inputs in respect of the Facilities, except in certain limited circumstances.

The degree to which the Corporation is leveraged on a consolidated basis could have important consequences to the holders of the common shares, including:

(a) The Corporation's and Facilities' ability in the future to obtain additional financing for working capital, capital expenditures, acquisitions or other purposes may be limited;

(b) The Corporation or Facilities may be unable to refinance indebtedness on terms acceptable to them or at all; and

(c) A portion of the Corporation's cash flow (on a consolidated basis) from operations is likely to be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations, capital expenditures, acquisitions and/or dividends on its common shares.

The Corporation has a credit facility that contains restrictive covenants which limit the discretion of the Corporation or its management with respect to certain matters. Furthermore, the Facilities have credit facilities that contain restrictive covenants which may limit the Facilities' abilities to make distributions.

Additional common shares may be issued by the Corporation pursuant to exchange agreements with the holders of the non-controlling interests in the Facilities, or in connection with future financing or acquisitions by the Corporation. The issuance of common shares may dilute an investor's investment in the Corporation and reduce distributable cash per common share.

MFA and MFH are organized under the laws of the State of Delaware. The Facilities that are located in South Dakota are formed under the laws of the State of South Dakota. The Facility located in Oklahoma is formed under the laws of the State of Oklahoma, the Facility located in Arkansas is formed under the laws of the State of Arkansas, and the Facility located in California is formed under the laws of the State of Delaware. All of the assets of the Facilities are located outside of Canada and certain of the directors and officers of the Corporation

and its subsidiaries are residents of the United States. As a result, it may be difficult or impossible for investors to effect service within Canada upon the Corporation's subsidiaries, the Facilities, or their directors and officers who are not residents of Canada, or to realize against them in Canada upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws.

The market price of the common shares may be subject to general volatility.

Payment of Dividends is not Guaranteed

Dividends to common shareholders are paid at the discretion of the Corporation's board of directors and are not guaranteed. The Corporation may alter its dividend level and dividends from the Corporation, if any, will depend on, among other things, the results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law, and other factors that the board of directors may deem relevant. The directors may decrease the level of dividends provided for in their existing dividend policies, or discontinue dividends at any time, and without prior notice.

Eligibility for Investment

There can be no assurance that the common shares will continue to be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, tax-free savings accounts and registered disability savings plans.

The Corporation is Subject to Canadian Tax

As a Canadian corporation, the Corporation is generally subject to Canadian federal, provincial and other taxes. There can be no assurance that Canadian federal income tax laws and Canada Revenue Agency administrative policies respecting the Canadian federal income tax consequences generally applicable to the Corporation or to a holder of common shares will not be changed in a manner which adversely affects holders of the common shares.

New Tax on Repurchases of Equity in Canada

Effective January 1, 2024, publicly listed Canadian-resident corporations and similar entities generally will be subject to a 2% tax on the net value of repurchases of their equity in a taxation year, subject to certain limited exceptions. This new tax may have an adverse impact on the Corporation by increasing the cost of any future repurchase of its common shares, including pursuant to NCIBs.

The Corporation's Structure may be Subject to Additional U.S Federal Income Tax Liability

MFA is subject to U.S. federal income tax on its consolidated taxable income at the U.S. federal corporate tax rate (currently 21%) and is also subject to certain U.S. state and local taxes (which will not be addressed herein). MFA will claim certain deductions, including an interest deduction related to the interest paid on its debt and interest arising on other debt in the consolidated group, to the extent allowed by law, in computing its taxable income for U.S. federal income tax purposes.

Certain provisions in the *U.S. Internal Revenue Code* of 1986, as amended, (the "Code"), if applicable, may affect the U.S. federal tax liability of MFA. Subject to forthcoming United States Treasury Regulations, it is possible that the NCIBs (or other share repurchase programs) that are regularly engaged in by MFA may be subject to the recently imposed 1% (with present proposals outstanding to increase 1% to 4%) "stock buyback" excise tax under Code section 4501. In addition, there are restrictions on the deductibility of interest, generally limiting such deduction to 30% of "adjusted taxable income", although disallowed interest expense can be carried forward to future years. There are also limitations on the use of net operating losses for tax years

beginning after 2020 (generally, those can only be utilized to the extent of 80% of taxable income in any given year, although unused net operating losses can be carried forward indefinitely). In addition, Code section 59A, known as "BEAT", which is the acronym for "base erosion anti-abuse tax", is designed to potentially limit the tax effectiveness of deductions for payments between U.S. and non-U.S. related parties by imposing a minimum tax on the U.S. corporation. The BEAT regime generally does not apply unless the payor U.S. corporation has average annual gross receipts for the 3-tax-year period ending with the preceding tax year that are at least $500 million.

If interest deductibility is limited, the use of net operating losses is restricted, or the BEAT regime applies, the result is likely to be an increase in the U.S. federal tax liability of MFA. If the U.S. federal tax liability of MFA is increased, this may reduce the amount of after-tax cash generated by MFA that could otherwise be available to make distributions to the Corporation and thereafter to pay dividends to holders of common shares.

United States Investment Company Act of 1940

While the Corporation believes that through its subsidiaries and affiliates it is actively engaged in operating businesses and does not meet the definition of an investment company for purposes of the *United States Investment Company Act* of 1940, as amended (the "1940 Act"), depending on the composition and valuation of the Corporation's assets and the sources of the Corporation's income from time to time, the Corporation could fall within the technical definition of the term "investment company" in the 1940 Act. Moreover, the determination of whether a company, like the Corporation, is an "investment company" involves complex analysis of regulations and facts, and the Corporation has not sought and does not anticipate seeking confirmation from the Securities and Exchange Commission (the "SEC") that it agrees with the Corporation's analysis. If the SEC were to disagree with the Corporation's analysis or the Corporation otherwise were to determine that it is an "investment company" as defined in the 1940 Act, the Corporation may, among other steps, prudently acquire or sell assets or equity interests in order to avoid remaining an "investment company" as defined under the 1940 Act. Such acquisitions or sales could be on terms other than those on which the Corporation would otherwise acquire or sell such assets or equity interests or the timing of such transactions could be disadvantageous to the Corporation. If the Corporation were unable to avoid being an investment company and were therefore required to register as such under the 1940 Act, the Corporation would become subject to substantial regulation with respect to its capital structure (including its ability to use leverage), management, operations, transactions with affiliated persons, portfolio composition (including restrictions with respect to diversification), and other matters.

16. NEW AND REVISED IFRS NOT YET ADOPTED

The Corporation has not adopted certain new and revised IFRS (as detailed in Note 20.24 to the Corporation's financial statements) that have been issued but are not yet effective. The Corporation does not anticipate the adoption of these amendments to have a material impact on the financial statements in future periods. There are no other new and revised IFRS that have been issued but not yet adopted that would be expected to have a material impact on the Corporation.