MEDICAL FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2024

May 8, 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 unaudited interim condensed consolidated financial statements and accompanying notes of the Corporation for the three months ended March 31, 2024 (the "financial statements"), which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, the audited consolidated financial statements and accompanying notes of the Corporation for the year ended December 31, 2023 ("annual financial statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Corporation's annual MD&A for the year ended December 31, 2023 ("annual MD&A").

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

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

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1. CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

Inherent in the forward-looking information are known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements, or industry results, to differ materially from any results, performance or achievements expressed or implied by such forward-looking information. Those risks, uncertainties and other factors that could cause actual results to differ materially from the forward-looking information include, but are not limited to: ability to obtain and maintain contractual arrangements with insurers and other payors, ability to attract and retain qualified physicians, availability of qualified personnel or management, legislative and regulatory changes, capital expenditures, general state of the economy, competition in the industry, opportunity to acquire accretive businesses, integration of acquisitions, currency risk, interest rate risk, success of new service lines introductions, ability to maintain profitability and manage growth, revenue and cash flow volatility, credit risk, operating risks, performance of obligations/maintenance of client satisfaction, information technology governance and security, risk of future legal proceedings, insurance limits, income tax matters, ability to meet solvency requirements to pay dividends, leverage and restrictive covenants, unpredictability and volatility of common share price, and issuance of additional common shares diluting existing shareholders’ interests, and other factors set forth under the heading “Risk Factors” in 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. On May 8, 2024, the Corporation's board of directors approved an increase of the quarterly dividend to Cdn$0.0900 per common share, commencing from the second quarter (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. As of the dates of the respective sale transactions, the Corporation stopped consolidating the financial results of these ASCs.

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 Paycheck Protection Program ("PPP").

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.

Subsequent to the divestiture of the MFC Nueterra ASCs in 2023, there remains a balance of $12.0 million in the government stimulus funds repayable in the interim condensed consolidated balance sheet as of March 31, 2024 (December 31, 2023: $12.0 million).

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 March 31, 2024

	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	3/0
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

Unaudited	Three Months Ended March 31,	
In thousands of U.S. dollars, except per share amounts and as indicated otherwise	**2024**	**2023**
Facility service revenue	108,258	109,250
Operating expenses	90,856	95,745
Income from operations	17,402	13,505
Net income for the period	8,461	9,666
Attributable to:		
Owners of the Corporation [1]	1,770	4,411
Non-controlling interest [1]	6,691	5,255
Earnings (loss) per share attributable to owners of the Corporation		
Basic	$0.07	$0.17
Fully diluted	$0.07	$0.17
EBITDA [2]	22,276	19,145
Cash available for distribution [2]	C$ 8,777	C$ 5,583
Distributions [2]	C$ 1,970	C$ 2,053
Cash available for distribution per common share [2]	C$ 0.357	C$ 0.217
Distributions per common share [2]	C$ 0.080	C$ 0.080
Payout ratio [2]	22.4%	36.9%

[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, and income taxes. These charges are incurred at the corporate level rather than at the Facility level. On the other hand, net income 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”, Sections 5 and 6 under the heading “Reconciliation of net income for the period to EBITDA and Adjusted EBITDA” and Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures.”*

Selected Financial Information for the Three Months Ended March 31, 2024 compared to the Three Months Ended March 31, 2023

For the three months ended March 31, 2024, facility service revenue of $108.3 million decreased by 0.9% from $109.3 million for the same period in 2023. Excluding the divested MFC Nueterra ASCs, facility service revenue increased from the same period last year by $4.6 million or 4.5%, mainly due to higher surgical case volume, and the combined positive impact of case and payor mix.

EBITDA for the three months ended March 31, 2024 was $22.3 million or 20.6% of revenue and other income compared to $19.1 million or 17.5% of revenue and other income for the same period last year. Excluding the divested MFC Nueterra ASCs, EBITDA increased from the same period last year by $3.6 million, mainly due to higher facility service revenue which exceeded the increase in operating expenses.

Net income for the three months ended March 31, 2024 was $8.5 million compared to net income of $9.7 million for the same period in 2023, with the decrease mainly attributable to higher finance costs, driven by the change in value of exchangeable interest liability at the corporate level (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability"), mostly offset by higher income from operations at the Facilities, along with cost saving initiatives at the corporate level, and lower income tax expense.

The Corporation generated cash available for distribution of Cdn$8.8 million for the three months ended March 31, 2024, representing an increase of Cdn$3.2 million or 57.2% from Cdn$5.6 million for the same period in 2023. Distributions per common share remained unchanged between the years at Cdn$0.080, while the payout ratio was 22.4% for the three months ended March 31, 2024 compared to 36.9% for the same period last year. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures."

5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

For the Three Months Ended March 31, 2024

The following table and discussion compare operating and financial results of the Corporation for the three months ended March 31, 2024 to the three months ended March 31, 2023:

Unaudited	Three Months Ended March 31,			
In thousands of U.S. dollars, except per share amounts	**2024**	**2023**	**$ Change**	**% Change**
Revenue and other income				
Facility service revenue	108,258	109,250	(992)	(0.9%)
	108,258	**109,250**	**(992)**	**(0.9%)**
Operating expenses				
Salaries and benefits	33,148	33,522	(374)	(1.1%)
Drugs and supplies	34,826	37,002	(2,176)	(5.9%)
General and administrative expenses	18,008	19,581	(1,573)	(8.0%)
Depreciation of property and equipment	2,268	2,447	(179)	(7.3%)
Depreciation of right-of-use assets	2,473	2,676	(203)	(7.6%)
Amortization of other intangibles	133	517	(384)	(74.3%)
	90,856	**95,745**	**(4,889)**	**(5.1%)**
Income from operations	**17,402**	**13,505**	**3,897**	**28.9%**
Finance costs				
Change in value of exchangeable interest liability	5,186	(1,303)	6,489	498.0%
Interest expense on exchangeable interest liability	2,048	1,850	198	10.7%
Interest expense, net of interest income	1,287	1,636	(349)	(21.3%)
Loss on foreign currency	43	4	39	975.0%
	8,564	**2,187**	**6,377**	**291.6%**
Income before income taxes	**8,838**	**11,318**	**(2,480)**	**(21.9%)**
Income tax expense	377	1,652	(1,275)	(77.2%)
Net income for the period	**8,461**	**9,666**	**(1,205)**	**(12.5%)**
Attributable to:				
Owners of the Corporation	1,770	4,411	(2,641)	(59.9%)
Non-controlling interest	6,691	5,255	1,436	27.3%
Basic earnings per share attributable to owners of the Corporation	$0.07	$0.17	(0.10)	(58.8%)
Fully diluted earnings per share attributable to owners of the Corporation	$0.07	$0.17	(0.10)	(58.8%)
Reconciliation of net income for the period to EBITDA [(1)]				
Net income for the period	8,461	9,666	(1,205)	(12.5%)
Income tax expense	377	1,652	(1,275)	(77.2%)
Finance costs	8,564	2,187	6,377	291.6%
Depreciation of property and equipment	2,268	2,447	(179)	(7.3%)
Depreciation of right-of-use assets	2,473	2,676	(203)	(7.6%)
Amortization of other intangibles	133	517	(384)	(74.3%)
EBITDA [(1)]	**22,276**	**19,145**	**3,131**	**16.4%**

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

Revenue and Other Income

Unaudited	Three Months Ended March 31,			
In thousands of U.S. dollars	**2024**	**2023**	**$ Change**	**% Change**
ASH	22,507	21,798	709	3.3%
OSH	19,874	19,923	(49)	(0.2%)
BHSH	26,283	24,920	1,363	5.5%
SFSH	37,163	34,591	2,572	7.4%
SCNC	2,431	2,398	33	1.4%
MFC Nueterra ASCs	-	5,620	(5,620)	(100.0%)
Revenue and other income	**108,258**	**109,250**	**(992)**	**(0.9%)**

For the three months ended March 31, 2024, facility service revenue decreased from the same period in 2023 by $1.0 million or 0.9%. Excluding the divested MFC Nueterra ASCs, facility service revenue increased from the same period last year by $4.6 million or 4.5%, mainly due to higher surgical case volume ($2.5 million), along with the combined impact of case and payor mix ($2.1 million), which reflected a higher proportion of spine cases and higher acuity orthopedic procedures, resulting in higher reimbursements per surgical case.

Excluding the divested MFC Nueterra ASCs, total surgical cases increased by 4.3%, as observation cases increased by 12.7%, and outpatient cases increased by 8.2%, but inpatient cases decreased by 17.8%. Surgical case volume was up at certain Facilities, led by BHSH and SFSH. Surgical case volume increases by payor over the same period last year came predominantly from Medicare, and Blue Cross Blue Shield and other commercial payors, which increased by 7.4% and 2.1%, respectively. Pain management cases were down by 5.9% 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 higher surgical case volume, and the impact of payor mix, resulting in higher reimbursements per surgical case, partly offset by a decrease in pain management cases, as well as the impact of case mix.

- OSH's revenue decreased mainly due to lower surgical case volume, mostly offset by the combined impact of case and payor mix, resulting in higher reimbursements per surgical case.

- BHSH's revenue increased mainly due to the impact of case mix, which reflected a higher proportion of spine cases, along with higher surgical case volume, an increase in urgent care revenues, and an increase in pain management cases. This was partly offset by the impact of payor mix, which included more government payor cases.

- SFSH's revenue increased mainly due to the impact of case mix, which included higher acuity orthopedic procedures, along with higher surgical case volume, partly offset by the impact of payor mix, which included more government payor cases.

- SCNC's revenue increased mainly due to the impact of case mix, which included higher acuity orthopedic procedures, mostly offset by lower surgical case volume.

- MFC Nueterra ASCs' revenue decreased due to the Corporation's divestiture of the ASCs in 2023.

Operating Expenses

For the three months ended March 31, 2024, operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses ("G&A"), depreciation of property and equipment, depreciation of right-of-use assets, and amortization of other intangibles (collectively "operating expenses"), decreased by $4.9 million or 5.1% from the same period last year to $90.9 million. As a percentage of revenue and other income, operating expenses decreased to 83.9% from 87.6% in the same period a year earlier. Excluding the divested MFC Nueterra ASCs, operating expenses increased from the same period last year by $0.6 million or 0.7%.

Unaudited	Three Months Ended March 31,					
In thousands of U.S. dollars	**2024**	**Percentage of Revenue**	**2023**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	18,274	81.2%	17,671	81.1%	603	3.4%
OSH	17,500	88.1%	18,515	92.9%	(1,015)	(5.5%)
BHSH	21,906	83.3%	21,965	88.1%	(59)	(0.3%)
SFSH	28,608	77.0%	27,008	78.1%	1,600	5.9%
SCNC	2,356	96.9%	2,088	87.1%	268	12.8%
MFC Nueterra ASCs	89	n/a	5,609	99.8%	(5,520)	(98.4%)
Corporate	2,123	n/a	2,889	n/a	(766)	(26.5%)
Operating expenses	**90,856**	**83.9%**	**95,745**	**87.6%**	**(4,889)**	**(5.1%)**

Consolidated salaries and benefits decreased by $0.4 million or 1.1%, primarily due to the impact of the divestiture of the MFC Nueterra ASCs in 2023 ($1.4 million), along with cost saving initiatives at the corporate level ($0.2 million), and lower benefit costs from decreased health plan utilization ($0.2 million). This was mostly offset by increases in clinical and non-clinical salaries and wages ($1.1 million) as a result of annual merit increases, full-time equivalent increases, and market wage pressures, as well as higher physician salaries ($0.4 million). As a percentage of revenue and other income, consolidated salaries and benefits decreased to 30.6% from 30.7% a year earlier.

Consolidated drugs and supplies decreased by $2.2 million or 5.9%, primarily due to the impact of the divestiture of the MFC Nueterra ASCs in 2023 ($2.3 million), partly offset by the impact of higher surgical case volume ($0.1 million). As a percentage of revenue and other income, the consolidated cost of drugs and supplies decreased to 32.2% from 33.9% a year earlier.

Consolidated G&A decreased by $1.6 million or 8.0%. The decrease in G&A was primarily due to the impact of the divestiture of the MFC Nueterra ASCs in 2023 ($1.5 million), along with cost saving initiatives at the corporate level ($0.6 million), and a decrease in other Facility related expenses ($0.5 million). This was partly offset by higher corporate level costs related to share-based compensation plans driven by the increase in the Corporation's share price in the current period as compared to a decrease in the same period last year ($0.6 million), as well as increases in contracted services costs ($0.3 million), and rent ($0.2 million). As a percentage of revenue and other income, consolidated G&A decreased to 16.6% from 17.9% a year earlier.

Consolidated depreciation of property and equipment decreased by $0.2 million or 7.3%, mainly due to the impact of the divestiture of the MFC Nueterra ASCs in 2023, and certain fixed assets being fully depreciated, partly offset by the acquisition of fixed assets. 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 $0.2 million or 7.6%, mainly due to the impact of the divestiture of the MFC Nueterra ASCs in 2023, and the expiration and termination of certain other leases, partly offset by new lease additions. As a percentage of revenue and other income, consolidated depreciation of right-of-use assets decreased to 2.3% from 2.4% a year earlier.

Consolidated amortization of other intangibles decreased by $0.4 million or 74.3%, mainly due to certain intangible assets being fully amortized. As a percentage of revenue and other income, consolidated amortization of other intangibles decreased to 0.1% from 0.5% a year earlier.

Income from Operations

Consolidated income from operations for the three months ended March 31, 2024 of $17.4 million was $3.9 million or 28.9% higher than consolidated income from operations of $13.5 million, recorded in the same period last year, representing 16.1% of revenue and other income, compared to 12.4% in the same period in 2023. Excluding the divested MFC Nueterra ASCs, consolidated income from operations increased from the same period last year by $4.0 million, mainly due to higher income from operations at the Facilities, as a result of higher facility service revenue which exceeded the increase in operating expenses, as well as cost saving initiatives at the corporate level.

Unaudited	Three Months Ended March 31,					
In thousands of U.S. dollars	**2024**	**Percentage of Revenue**	**2023**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	4,233	18.8%	4,127	18.9%	106	2.6%
OSH	2,374	11.9%	1,408	7.1%	966	68.6%
BHSH	4,377	16.7%	2,955	11.9%	1,422	48.1%
SFSH	8,555	23.0%	7,583	21.9%	972	12.8%
SCNC	75	3.1%	310	12.9%	(235)	(75.8%)
MFC Nueterra ASCs	(89)	n/a	11	0.2%	(100)	(909.1%)
Corporate	(2,123)	n/a	(2,889)	n/a	766	26.5%
Income from operations	**17,402**	**16.1%**	**13,505**	**12.4%**	**3,897**	**28.9%**

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 for the three months ended March 31, 2024 of $5.2 million (expense) increased by $6.5 million from $1.3 million (income) recorded in the same period in 2023, attributable to variations in all three factors.

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

In thousands of U.S. dollars, except as indicated otherwise	**March 31, 2024** *Unaudited*	**December 31, 2023**	**Change**	**March 31, 2023** *Unaudited*	**December 31, 2022**	**Change**
Number of common shares to be issued for exchangeable interest liability	5,922,297	5,913,560	8,737	6,130,093	6,297,268	(167,175)
Closing price of the Corporation's common shares	C$10.35	C$8.98	C$1.37	C$7.95	C$8.04	(C$0.09)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3539	$1.3247	$0.0292	$1.3518	$1.3554	($0.0036)
Exchangeable interest liability	**45,273**	**40,087**	**5,186**	**36,051**	**37,354**	**(1,303)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability increased by $0.2 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 $0.3 million mainly due to lower corporate credit facility interest expense due to the lower outstanding balance.

Loss 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 loss increased marginally due to the relative change in foreign exchange rates between the reporting periods.

Income Tax

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

Unaudited	**Three Months Ended March 31,**			
In thousands of U.S. dollars	**2024**	**2023**	**$ Change**	**% Change**
Current income tax expense	1,282	955	327	34.2%
Deferred income tax expense (recovery)	(905)	697	(1,602)	(229.8%)
Income tax expense	**377**	**1,652**	**(1,275)**	**(77.2%)**

The increase in current income tax expense versus last year was primarily due to higher income from operations at the Facilities. The decrease in deferred income tax expense versus the prior year was mainly due to the impact of the change in the exchangeable interest liability.

Net Income

The $1.2 million decrease in net income for the period was mainly attributable to higher finance costs, driven by the change in value of exchangeable interest liability at the corporate level (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability"), mostly offset by higher income from operations at the Facilities, along with cost saving initiatives at the corporate level, and lower income tax expense.

EBITDA

EBITDA for the three months ended March 31, 2024 of $22.3 million increased by $3.2 million from $19.1 million recorded in the same period last year, representing 20.6% of revenue and other income compared to 17.5% a year earlier. Excluding the divested MFC Nueterra ASCs, EBITDA increased from the same period last year by $3.6 million, mainly driven by higher EBITDA at the Facilities, as a result of 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 period to EBITDA."

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results

Unaudited	2024	2023				2022		
In thousands of U.S. dollars, except per share amounts	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue and other income								
Facility service revenue	108,258	122,265	104,579	109,488	109,250	119,434	102,167	102,162
Government stimulus income, net of reversals	-	-	-	-	-	(12,335)	-	363
	108,258	**122,265**	**104,579**	**109,488**	**109,250**	**107,099**	**102,167**	**102,525**
Operating expenses								
Salaries and benefits	33,148	34,937	32,896	32,680	33,522	33,736	32,370	31,347
Drugs and supplies	34,826	39,459	35,433	37,006	37,002	41,040	35,053	34,076
General and administrative expenses	18,008	17,335	18,508	18,577	19,581	17,042	19,134	15,559
Impairment of goodwill, other intangibles and equipment	-	-	-	-	-	16,549	-	-
Depreciation of property and equipment	2,268	2,301	2,352	2,428	2,447	2,300	2,328	2,315
Depreciation of right-of-use assets	2,473	2,587	2,711	2,727	2,676	2,898	2,696	2,608
Amortization of other intangibles	133	136	137	518	517	161	161	159
	90,856	**96,755**	**92,037**	**93,936**	**95,745**	**113,726**	**91,742**	**86,064**
Income (loss) from operations	**17,402**	**25,510**	**12,542**	**15,552**	**13,505**	**(6,627)**	**10,425**	**16,461**
Finance costs (income)								
Change in value of exchangeable interest liability	5,186	(1,277)	3,298	2,015	(1,303)	(11,036)	6,914	(14,405)
Interest expense on exchangeable interest liability	2,048	2,017	1,645	1,731	1,850	1,944	1,515	1,712
Interest expense, net of interest income	1,287	1,505	1,450	1,565	1,636	1,668	1,310	1,352
Impairment loss (gain) on loans receivable	-	-	786	-	-	(1,394)	9,394	-
Loss (gain) on foreign currency	43	(8)	28	10	4	(6)	(4)	3
	8,564	**2,237**	**7,207**	**5,321**	**2,187**	**(8,824)**	**19,129**	**(11,338)**
Non-operating (gains) losses								
Gain on sale of subsidiaries and equity investments	-	-	(2,487)	-	-	-	-	-
Share of equity loss in associates	-	-	320	-	-	303	5	272
	-	**-**	**(2,167)**	**-**	**-**	**303**	**5**	**272**
Income (loss) before income taxes	**8,838**	**23,273**	**7,502**	**10,231**	**11,318**	**1,894**	**(8,709)**	**27,527**
Income tax expense (recovery)	377	2,962	2,709	1,002	1,652	5,231	(3,213)	5,284
Net income (loss) for the period	**8,461**	**20,311**	**4,793**	**9,229**	**9,666**	**(3,337)**	**(5,496)**	**22,243**
Attributable to:								
Owners of the Corporation	1,770	10,882	(114)	3,324	4,411	(2,274)	(10,453)	16,183
Non-controlling interest	6,691	9,429	4,907	5,905	5,255	(1,063)	4,957	6,060
Earnings (loss) per share attributable to owners of the Corporation:								
Basic	$0.07	$0.44	($0.01)	$0.13	$0.17	($0.08)	($0.35)	$0.54
Fully diluted	$0.07	$0.39	($0.01)	$0.13	$0.17	($0.26)	($0.35)	$0.19
Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA (1)								
Net income (loss) for the period	8,461	20,311	4,793	9,229	9,666	(3,337)	(5,496)	22,243
Income tax expense (recovery)	377	2,962	2,709	1,002	1,652	5,231	(3,213)	5,284
Non-operating (gains) losses	-	-	(2,167)	-	-	303	5	272
Finance costs (income)	8,564	2,237	7,207	5,321	2,187	(8,824)	19,129	(11,338)
Depreciation of property and equipment	2,268	2,301	2,352	2,428	2,447	2,300	2,328	2,315
Depreciation of right-of-use assets	2,473	2,587	2,711	2,727	2,676	2,898	2,696	2,608
Amortization of other intangibles	133	136	137	518	517	161	161	159
EBITDA (1)	**22,276**	**30,534**	**17,742**	**21,225**	**19,145**	**(1,268)**	**15,610**	**21,543**
Impairment of goodwill, other intangibles and equipment	-	-	-	-	-	16,549	-	-
Adjusted EBITDA (1)	**22,276**	**30,534**	**17,742**	**21,225**	**19,145**	**15,281**	**15,610**	**21,543**

(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, some of which was recorded as government stimulus income during 2022. However, 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 accountable care organization ("ACO"), as well as a management agreement for SFSH's orthopedic service line (refer to Section 12 of this MD&A under heading "Related Party Transactions"). Operating expenses and revenue have been further impacted by SFSH moving their anesthesia service and related billing in-house, in order to secure uninterrupted services, 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, 2023 and 2024, 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 cash provided by operating activities:

		Three Months Ended March 31,	
Unaudited *In thousands of U.S. dollars, except as indicated otherwise*		2024 $	2023 $
NET CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**24,515**	**18,919**
Non-controlling interest in cash flows of the Facilities [1]		(8,837)	(7,016)
Interest expense on exchangeable interest liability [2]		2,048	1,850
Payment of lease liabilities [3]		(2,838)	(3,051)
Maintenance capital expenditures [4]		(773)	(1,265)
Difference between accrual-based amounts and actual cash flows related to interest and taxes [5]		(1,332)	(1,004)
Net changes in non-cash operating working capital [6]		(4,967)	(2,592)
Stock options expense [7]		(14)	(14)
Repayments of notes payable by the Facilities [8]		(1,294)	(1,699)
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**6,508**	**4,128**
	CDN	**8,777**	**5,583**
DISTRIBUTIONS	**CDN**	**1,970**	**2,053**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE [9]	**CDN**	**$0.357**	**$0.217**
TOTAL DISTRIBUTIONS PER COMMON SHARE [9]	**CDN**	**$0.080**	**$0.080**
PAYOUT RATIO		**22.4%**	**36.9%**
Average exchange rate of Cdn$ to US$ for the period		1.3486	1.3525
Basic weighted average number of common shares outstanding		24,580,394	25,702,096

[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] *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.*

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

[4] *Maintenance capital expenditures at the Facility level reflect expenditures incurred to maintain the current operating capacities of the Facilities and are deducted in the calculation of cash available for distribution. Maintenance capital expenditures, together with major capital expenditures, comprise the purchase of property and equipment, which is included in cash flows from investing activities in the Corporation's interim condensed consolidated statements of cash flows.*

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

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

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

[8] *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 interim condensed consolidated statements of cash flows.*

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

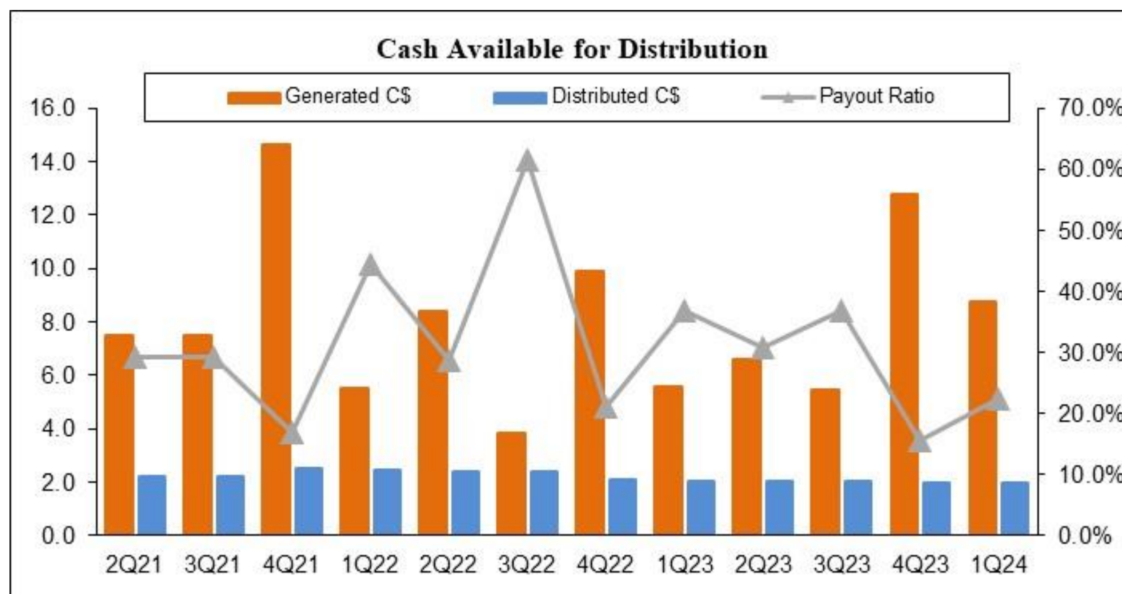
Cash available for distribution for the three months ended March 31, 2024 (Cdn$8.8 million) increased by Cdn$3.2 million compared to the cash available for distribution for the same period last year (Cdn$5.6 million). On a per common share basis, cash available for distribution of Cdn$0.357 increased by Cdn$0.140, or 64.5% from the same period last year of Cdn$0.217. Distributions per common share remained unchanged between the years at Cdn$0.080, resulting in a payout ratio of 22.4% for the three months ended March 31, 2024 as compared to a payout ratio of 36.9% for the same period in 2023.

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 March 31,	
Unaudited	**2024**	**2023**
In thousands of U.S. dollars	**$**	**$**
Cash flows from the Facilities:		
Income before interest expense, depreciation and amortization	24,344	21,369
Debt service costs:		
Interest	(530)	(463)
Repayment of non-revolving debt	(1,294)	(1,699)
Maintenance capital expenditures	(773)	(1,265)
Payment of lease liabilities	(2,826)	(3,000)
Cash available for distribution at the Facility level	18,921	14,942
Non-controlling interest in cash available for distribution at the Facility level	(8,837)	(7,016)
Corporation's share of the cash available for distribution at the Facility level	**10,084**	**7,926**
Corporate expenses	(2,075)	(2,299)
Interest on corporate credit facility	(219)	(544)
Provision for current income taxes	(1,282)	(955)
Cash available for distribution	**6,508**	**4,128**

Compared to the three months ended March 31, 2023, the cash available for distribution in U.S. dollars for the same period this year increased by 57.7%, mainly due to higher income from Facilities, lower debt service costs and maintenance capital expenditures at the Facilities, lower corporate expenses, and lower interest on the corporate credit facility, partly offset by 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 the annual MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

The 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 increased borrowing costs from higher interest rates, which have heightened 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 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 population in our existing markets, 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.

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 had made a determination to shift its focus away from deploying a growth strategy through acquisitions. This change in corporate strategy included 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 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 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 the annual MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

Cash Balances

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

Unaudited *In thousands of U.S. dollars*	March 31, 2024	December 31, 2023
Cash and cash equivalents at the Facility level	14,873	14,583
Cash and cash equivalents at the corporate level	10,781	9,530
Cash and cash equivalents	**25,654**	**24,113**

Cash Flow Activity

Cash Flow

Unaudited	Three Months Ended March 31,			
In thousands of U.S. dollars	2024	2023	$ Change	% Change
Cash provided by operating activities	24,515	18,919	5,596	29.6%
Cash used in investing activities	(1,772)	(2,543)	771	30.3%
Cash used in financing activities	(21,159)	(15,993)	(5,166)	(32.3%)
Increase in cash and cash equivalents	**1,584**	**383**	**1,201**	**313.6%**
Effect of exchange rate fluctuations on cash balances held	(43)	(4)	(39)	(975.0%)
Cash and cash equivalents, beginning of the period	24,113	34,926	(10,813)	(31.0%)
Cash and cash equivalents, end of the period	**25,654**	**35,305**	**(9,651)**	**(27.3%)**

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

Operating Activities and Working Capital

Cash from operating activities in the three months ended March 31, 2024 increased by $5.6 million compared to the same period in 2023, primarily due to higher income from the Facilities' operations.

As of March 31, 2024, the Corporation had consolidated net working capital of $7.8 million compared to $19.8 million as of December 31, 2023. The change in consolidated net working capital was mainly due an increase in the obligation for purchase of common shares, along with decreases in accounts receivable, and prepaid expenses and other receivables, partly offset by decreases in accounts payable, and accrued liabilities. The level of working capital, including financing required to cover any deficiencies, is dependent on the operating performance of the Facilities and fluctuates from period to period.

As of March 31, 2024, accounts receivable were $54.1 million (December 31, 2023: $61.8 million), accounts payable and accrued liabilities totaled $39.9 million (December 31, 2023: $43.8 million), total assets were $345.4 million (December 31, 2023: $354.9 million) and total long-term liabilities, excluding exchangeable interest liability, were $104.7 million (December 31, 2023: $113.5 million).

Investing Activities

The $0.8 million decrease in cash used in investing activities for the three months ended March 31, 2024 compared to the same period in 2023 was primarily due to a decrease in purchases of property and equipment.

Financing Activities

The $5.2 million increase in cash used in financing activities for the three months ended March 31, 2024 was mainly due to higher net repayments of credit facilities and other borrowings at both the Facility and corporate levels ($5.9 million), along with an increase in Facility distributions to non-controlling interest ($0.3 million), partly offset by a decrease in the purchase of common shares under normal course issuer bids ($0.8 million), and lower payment of lease liabilities ($0.2 million).

The Facilities have available credit facilities in place in the aggregate amount of $26.9 million, of which $10.7 million was drawn as of March 31, 2024. The balances available under the credit facilities, combined with cash and cash equivalents as of March 31, 2024, 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 March 31, 2024, $11.0 million was drawn and remained outstanding for the Credit Facility. The Corporation repaid $5.0 million of its outstanding balance during the three months ended March 31, 2024. As of March 31, 2024, the Corporation was in compliance with all of its debt covenants.

Contractual Obligations

The mandatory repayments under the credit facilities and other contractual obligations and commitments including expected interest payments, on a non-discounted basis, as of March 31, 2024, are as follows:

Unaudited		Future payments (including principal and interest)				
In thousands of U.S. dollars **Contractual Obligations**	**Carrying values at March 31, 2024 $**	**Total $**	**Less than 1 year $**	**2-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	1,455	1,455	1,455	-	-	-
Accounts payable	20,926	20,926	20,926	-	-	-
Accrued liabilities	18,990	18,990	18,990	-	-	-
Income tax payable	558	558	558	-	-	-
Obligation for purchase of common shares	9,693	9,693	9,693	-	-	-
Government stimulus funds repayable	11,957	11,957	11,957	-	-	-
Corporate credit facility	11,000	12,042	736	11,306	-	-
Facilities' revolving credit facilities	10,705	10,998	9,539	1,459	-	-
Notes payable	39,699	44,522	6,384	17,097	20,995	46
Lease liabilities	47,201	55,185	11,262	17,847	14,949	11,127
Total contractual obligations	**172,184**	**186,326**	**91,500**	**47,709**	**35,944**	**11,173**

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 the annual MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

The following table summarizes the outstanding number of stock options as of March 31, 2024:

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 March 31, 2024, 444,906 of the Options relating to the Former Chief Executive Officer and the Former Chief Financial Officer are vested.

As of March 31, 2024, the Corporation had 24,470,562 common shares outstanding.

Normal Course Issuer Bids

The Corporation has a normal course issuer bid for up to 2,481,256 of its common shares in effect from December 1, 2023 to November 30, 2024. During the three months ended March 31, 2024, the Corporation purchased 253,900 of its common shares for a total consideration of $1.8 million from the open market under this normal course issuer bid. During the three months ended March 31, 2023, the Corporation purchased 417,900 of its common shares for a total consideration of $2.5 million from the open market under a previous normal course issuer bid.

Dividends

Dividend declarations are determined based on periodic reviews of the Corporation's earnings, capital expenditures and related cash flows. Such declarations take into account that the cash generated in the period is to be distributed after considering (i) debt service obligations, (ii) other expense and tax obligations, (iii) reasonable reserves for working capital and capital expenditures, and (iv) financial flexibility. Cash distributions declared in the period from January 1, 2024 to March 31, 2024 totaled Cdn$0.0805 per common share. On May 8, 2024, the Corporation's board of directors approved an 11.8% increase of its quarterly dividend to Cdn$0.0900 per common share, commencing with the second quarter dividend payable to the shareholders of record at the close of business on June 28, 2024.

Dividend Reinvestment and Share Purchase Plan

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

11. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the interim condensed consolidated balance sheet as of March 31, 2024 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.

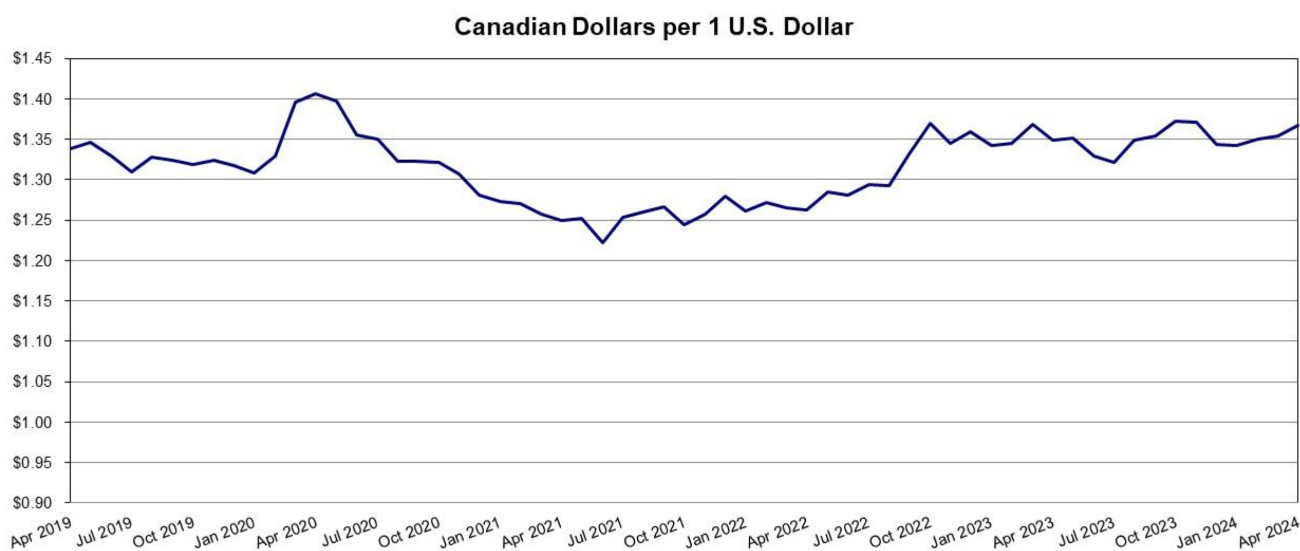
The fair value of the exchangeable interest liability is determined based on the closing trading price of the Corporation's common share price at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these 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 April 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 March 31, 2024, 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 three months ended March 31, 2024 of $1.1 million (March 31, 2023: $1.1 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:

Unaudited *In thousands of U.S. dollars*		**Three Months Ended March 31,**	
Entity	**Nature of services or goods received**	**2024** **$**	**2023** **$**
ASH	Lease of facility building and anesthesia equipment.	1,098	1,110
OSH	Lease of hospital building, and office space.	636	636
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	495	572
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.	3,316	3,296
MFC Nueterra ASCs	Provision of management services, physician professional services, and lease of ASC building.	-	473
Total		**5,545**	**6,087**

13. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

As of December 31, 2023, the loans receivable from associates were fully impaired or settled.

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 March 31, 2024, and determined that there has been no impairment of non-financial assets, including goodwill and other intangibles.

Taxes

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

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

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

Management is responsible for the financial information published by the Corporation. In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have certified that the quarterly filings

fairly present in all material respects the financial condition, results of operations and cash flows and have also certified regarding controls as described below.

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

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

There have been no changes in the Corporation's ICFR during the period beginning on January 1, 2024 and ending on March 31, 2024, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

15. RISK FACTORS

The Corporation's annual MD&A contains a summary of risk factors pertaining to the Corporation, which 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. There have been no changes in the nature or the number of risk factors pertaining to the Corporation since the date of the most recently filed annual information form (March 28, 2024). The disclosures in this MD&A are subject to the risk factors outlined in those materials.

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 annual financial statements, that also apply to the current period financial statements. The Corporation does not anticipate the adoption of these new and revised IFRS 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.