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, 2014**

March 18, 2015

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 consolidated financial statements and accompanying notes (the "financial statements") of the Corporation for the year ended December 31, 2014, 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 are stated in thousands of U.S. dollars, unless indicated otherwise.

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

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1. CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain information in this MD&A may constitute "forward-looking information" within the meaning of applicable securities legislation. All information contained in this MD&A, other than statements of current and historical fact, is forward-looking information. Forward-looking information includes information that relates to, among other things, objectives, strategies and intentions, and future financial and operating performance and prospects. Generally, forward-looking information can be identified by use of words such as "may", "will", "could", "should", "would", "expect", "believe", "plan", "believe", "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 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.

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 or conditions in the financial markets, consistent and stable legislative environment in which the Corporation operates, and the opportunity to acquire accretive businesses.

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, 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, capital investment, 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.sedar.com).

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

2. NON-IFRS FINANCIAL MEASURES

The Corporation uses certain non-IFRS measures which it believes provide useful measures for evaluation and assessment of the Corporation's performance. Non-IFRS 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 measures which are presented in Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures" of this MD&A and reconciled to the applicable IFRS measures:

- **Cash available for distribution** is a non-IFRS measure of cash generated from operations during a reporting period which is available for distribution to common shareholders. Cash available for distribution is derived from cash flows from operations before changes in non-cash working capital, less maintenance capital expenditures, interest and principal repayments on non-revolving debt obligations and non-controlling interest in cash flows at the Center level and gains or losses on foreign exchange forward contracts matured in the respective periods. The Corporation presents cash available for distribution in U.S. dollars and translates it into Canadian dollars using the average exchange rate applicable during the period.

- **Cash available for distribution per common share** is a non-IFRS measure calculated as the cash available for distribution divided by the weighted average common shares outstanding during the period. The Corporation also presents this amount exclusive of realized gains or losses on foreign exchange forward contracts.

- **Payout ratio** is a non-IFRS measure calculated as total distributions per common share in Canadian dollars divided by cash available for distribution per common share in Canadian dollars. The Corporation also presents this amount exclusive of realized gains or losses on foreign exchange forward contracts.

3. BUSINESS OVERVIEW

The Corporation is a British Columbia corporation. The capital of the Corporation is in the form of publicly traded common shares and 5.9% convertible unsecured subordinated debentures ("5.9% debentures"). Prior to April 30, 2013, the capital of the Corporation also included 7.5% convertible secured debentures ("7.5% debentures") which matured on April 30, 2013. The 7.5% debentures and 5.9% debentures are hereinafter individually or collectively referred to as "convertible debentures". The Corporation's current monthly dividend on its common shares is Cdn$0.09375 per share.

The Corporation's operations are based in the United States. Through its wholly-owned U.S.-based subsidiaries, Medical Facilities America, Inc. ("MFA") and Medical Facilities (USA) Holdings, Inc. ("MFH"), the Corporation owns controlling interests in, and derives substantially all of its income from, six limited liability entities (each a "Center" and, collectively, the "Centers"), each of which owns either a specialty surgical hospital (an "SSH") or an ambulatory surgery center (an "ASC"). The SSHs are located in South Dakota, Oklahoma and Arkansas and the ASC is located in California. ASCs are specialized surgical centers that only provide outpatient procedures, whereas SSHs are licensed for both inpatient and outpatient surgeries. The Centers provide facilities, including staff, 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 Centers mainly focus on a limited number of clinical specialties such as orthopaedic, neurosurgery, pain management and other non-emergency elective procedures. In addition, two of the SSHs provide primary and urgent care to their communities.

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

Non-controlling interests in the Centers are indirectly owned primarily by physicians practicing at the Centers. Upon acquisition by the Corporation of indirect controlling interests in the SSHs located in South Dakota, Oklahoma and Arkansas, the non-controlling interest owners were granted the right to exchange up to 14% (5% in the case of Arkansas Surgical Hospital) of the ownership interest in their respective Centers for common shares of the Corporation. The non-controlling interest owners of several Centers have exercised portions of their exchangeable interests.

Summary of Center Information as of December 31, 2014

	Black Hills Surgical Hospital ("BHSH")	**Dakota Plains Surgical Center ("DPSC")**	**Sioux Falls Specialty Hospital ("SFSH")**	**Oklahoma Spine Hospital ("OSH")**	**Arkansas Surgical Hospital ("ASH")**	**The Surgery Center of Newport Coast ("SCNC")**
Location	Rapid City South Dakota	Aberdeen South Dakota	Sioux Falls South Dakota	Oklahoma City Oklahoma	North Little Rock Arkansas	Newport Beach California
Year Opened	1997	1998	1985	1999	2005	2004
Year Acquired by the Corporation	2004	2004	2004	2005	2012	2008
Ownership Interest	54.2%	65.0%	51.0%	58.8%	51.0%	51.0%
Non-controlling Interest	45.8%	35.0%	49.0%	41.2%	49.0%	49.0%
Exchangeable Interest	10.8%	-	14.0%	6.2%	5.0%	-
Size	75,000 sq ft	19,000 sq ft	76,000 sq ft	61,000 sq ft	126,000 sq ft	7,000 sq ft
Operating Rooms	11	3	13	7	9	2
Overnight Rooms	26	15	35	25	41(1)	-

(1) *Licensed for 51 beds.*

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information

In thousands of U.S. dollars, except per share amounts and as indicated otherwise	**For the Years Ended December 31, 2014**	**2013**	**2012**
Facility service revenue	311,834	309,162	239,380
Operating expenses(1)(2)	240,598	235,886	173,462
Income from operations(1)(2)	71,236	73,276	65,918
Net income for the year(1)	54,981	44,609	62,359
Attributable to:			
Owners of the Corporation(1)	23,308	11,020	33,025
Non-controlling interest(1)(3)	31,673	33,589	29,334
Earnings per share attributable to owners of the Corporation(1)			
Basic	$ 0.744	$ 0.362	$ 1.166
Fully diluted	$ 0.560	$ 0.362	$ 1.166
Cash available for distribution(4)	C$ 41,366	C$ 40,823	C$ 37,769
Distributions	C$ 35,261	C$ 34,402	C$ 31,467
Cash available for distribution per common share(4)	C$ 1.320	C$ 1.340	C$ 1.333
Distributions per common share	C$ 1.125	C$ 1.129	C$ 1.110
Payout ratio(4)	85.2%	84.3%	83.3%

	At December 31, 2014	**At December 31, 2013**	**At December 31, 2012**
Total assets	409,709	439,253	441,012
Total long-term financial liabilities(5)	71,799	59,141	70,119

[(1)] As a result of an error in accounting for leases at one of the Corporation's subsidiaries, the Corporation made an immaterial non-cash correction to general and administrative expenses to reflect the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made by the subsidiary. This adjustment is reflected for each period shown in the table above.

[(2)] To comply with the requirements of the Canadian securities regulators, in 2014, the Corporation included amortization of other intangibles as part of operating expenses. Prior to 2014, amortization of other intangibles was classified separately from operating expenses. This change in treatment is reflected for each period shown in the table above. As a result of the different treatment, certain metrics appear different than reported in prior financial statements and MD&A.

[(3)] Net income attributable to non-controlling interest represents the interest of non-controlling interest in the net income of the Centers on a stand-alone basis and, therefore, does not vary significantly between the periods. On the other hand, net income attributable to owners of the Corporation fluctuates significantly between the periods due to variations in finance costs, primarily in the values of convertible debentures and exchangeable interest liability, and income taxes; these charges are incurred at the corporate level rather than at Center level.

[(4)] Non-IFRS measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures and to Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures" in this MD&A for a reconciliation to the equivalent IFRS measure.

[(5)] Consists of long-term debt and convertible debentures.

2014 Compared to 2013

For the year ended December 31, 2014, revenue was $311.8 million, an increase of 0.9% over 2013, primarily due to the growth recorded by BHSH and ASH, offset by the decline in revenue at all other Centers. Income from operations declined by 2.8% to $71.2 million, or 22.8% of revenue, compared to $73.3 million, or 23.7% of revenue, in 2013. Net income for the year of $55.0 million increased by 23.3%, primarily due to a decline in the value of exchangeable interest liability which was partially offset by the increase in income tax expense. The Corporation generated cash available for distribution of Cdn$41.4 million, an increase of 1.3% over 2013. Distributions per common share declined by 0.4%, while the 2014 payout ratio was 85.2% compared to 84.3% in 2013.

2013 Compared to 2012

For the year ended December 31, 2013, revenue of $309.2 million increased by 29.2%, which was attributable to full 12 months of revenue from the 2012 acquisition of ASH and growth in revenue at all other SSHs. Income from operations increased by 11.2% to $73.3 million, or 23.7% of revenue, compared to $65.9 million, or 27.5%, in 2012. Net income for the year was $44.6 million, a decrease of 28.5%, primarily attributable to losses on foreign currency and an increase in the value of exchangeable interest liability. The Corporation generated cash available for distribution of Cdn$40.8 million, which was higher than Cdn$37.8 million generated in 2012 by 8.1%. Distributions per common share increased by 1.7%, resulting in a payout ratio of 84.3%, compared to the payout ratio of 83.3% in 2012.

Redemption and Maturity of Convertible Debentures

The Corporation's Cdn$42,979 (US$42,659) principal amount of 7.5% debentures matured on April 30, 2013. Under the terms of the trust indenture governing the terms of the 7.5% debentures, the holders of the 7.5% debentures had the right to convert their holdings into common shares at a conversion price of $13.10 per common share prior to maturity. From June 18, 2012 (the date of the first conversion) through April 30, 2013, Cdn$41,201 (US$40,894) principal amount of 7.5% debentures was converted into an aggregate of 3,145,093 common shares. On April 30, 2013, the Corporation redeemed the remaining outstanding principal amount of Cdn$1,778 (US$1,765) for cash.

2012 Compared to 2011

For the year ended December 31, 2012, revenue of $239.4 million increased by 10.6% as all Centers recorded revenue growth. Income from operations increased by 4.7% to $65.9 million, or 27.6% of revenue, over $63.0 million, or 29.1% of revenue, in 2011. Net income for the year was $62.4 million, an increase of 413.8%, primarily attributable to improved operating performance and decreases in income taxes and interest expense. The Corporation generated cash available for distribution of Cdn$37.8 million, up from Cdn$33.8 million generated in 2011. Distributions per common share increased by 0.9%, resulting in a payout ratio of 83.3%, compared to the 2011 payout ratio of 92.4%.

Acquisition of ASH

On November 30, 2012, the Corporation purchased, through MFH, a 51% interest in ASH, a specialty surgical hospital located in North Little Rock, Arkansas for a total consideration of $36,706. The acquisition was financed by a draw on the Corporation's line of credit ($27,110) and cash on hand ($9,596).

Issuance of Convertible Debentures

On December 21, 2012, the Corporation issued, in a public offering, Cdn$41,800 (US$42,042) aggregate principal amount of 5.9% debentures, which pay interest semi-annually in arrears on June 30 and December 31 of each year, mature on December 31, 2019 and are convertible into 52.3286 common shares per Cdn$1,000 principal amount of 5.9% debentures, at any time, at the option of the holder, representing a conversion price of Cdn$19.11 per common share. For further information about the Corporation's 5.9% debentures, please refer to Section 9 under the heading "Liquidity and Capital Resources" of this MD&A.

For a discussion of certain other trends and events that have affected, and may continue to affect, the Corporation's business, please refer to Section 6 under the heading "Quarterly Operating and Financial Results" and Section 8 under the heading "Outlook", which contain forward-looking statements subject to the cautionary statements in Section 1 of this MD&A.

5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

Three Months Ended December 31, 2014

The following table and discussion compare operating and financial results of the Corporation for the three months ended December 31, 2014 to the three months ended December 31, 2013.

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2014**	**2013**	**$ Change**	**% Change**
Facility service revenue	87,623	89,620	(1,997)	(2.2%)
Operating expenses[1][2]				
Salaries and benefits	21,295	21,350	(55)	(0.3%)
Drugs and supplies	23,768	24,815	(1,047)	(4.2%)
General and administrative expenses[1]	12,099	11,344	755	6.7%
Depreciation of property and equipment	2,464	2,505	(41)	(1.6%)
Amortization of other intangibles[2]	3,570	4,680	(1,110)	(23.7%)
	63,196	64,694	(1,498)	(2.3%)
Income from operations[1][2]	**24,427**	**24,926**	**(499)**	**(2.0%)**
Finance costs				
Increase (decrease) in value of convertible debentures	(242)	188	(430)	(228.7%)
Increase in value of exchangeable interest liability	8,056	9,609	(1,553)	(16.2%)
Interest expense on exchangeable interest liability	2,064	2,738	(674)	(24.6%)
Interest expense, net of interest income	931	958	(27)	(2.8%)
Loss on foreign currency	1,705	2,573	(868)	(33.7%)
	12,514	16,066	(3,552)	(22.1%)
Income before income taxes[1]	**11,913**	**8,860**	**3,053**	**34.5%**
Income tax expense (recovery)[1]	3,339	(12,186)	15,525	(127.4%)
Net income for the period[1]	**8,574**	**21,046**	**(12,472)**	**(59.3%)**
Attributable to:				
Owners of the Corporation[1]	(1,587)	10,138	(11,725)	(115.7%)
Non-controlling interest[1]	10,161	10,908	(747)	(6.8%)
Basic and fully diluted earnings (loss) per share attributable to owners of the Corporation[1]	($ 0.051)	$ 0.323	(0.374)	(115.8%)

(1) As a result of an error in accounting for leases at one of the Corporation's subsidiaries, the Corporation made an immaterial non-cash correction to general and administrative expenses to reflect the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made by the subsidiary. This adjustment is reflected for each period shown in the table above.

(2) To comply with the requirements of the Canadian securities regulators, in 2014, the Corporation included amortization of other intangibles as part of operating expenses. Prior to 2014, amortization of other intangibles was classified separately from operating expenses. This change in treatment is reflected for each period shown in the table above. As a result of the different treatment, certain metrics appear different than reported in prior financial statements and MD&A.

Revenue

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	**2014**	**2013**	**$ Change**	**% Change**
BHSH	21,687	20,364	1,323	6.5%
DPSC	5,166	5,136	30	0.6%
SFSH	26,158	26,199	(41)	(0.2%)
OSH	16,853	19,026	(2,173)	(11.4%)
ASH	15,783	16,353	(570)	(3.5%)
SCNC	1,976	2,542	(566)	(22.3%)
Facility service revenue	**87,623**	**89,620**	**(1,997)**	**(2.2%)**

For the three months ended December 31, 2014, consolidated revenue of $87.6 million declined by $2.0 million or 2.2% over the same period in 2013. Despite growth in case volumes which generated additional revenue of $1.0 million and increased ancillary (primary, urgent, imaging, etc.) revenue of $0.2 million, revenue was negatively impacted by shifts in payor and case mix ($1.6 million and $0.5 million, respectively) and a $1.3 million decrease in payments received under the Electronic Health Records Incentive Program ("EHR incentive payments"). The decrease in EHR incentive payments was expected as the payments decline with the completion of each stage under the Program and will ultimately cease.

Total surgical cases increased marginally by 0.3%, as growth in outpatient and observation cases was offset by a decline in inpatient, mostly neurosurgery, cases. Total pain management procedures increased by 8.4%. The payor mix had a higher proportion of cases which were funded by government payors with lower reimbursement rates and private insurers with fixed reimbursement schedules.

The above factors impacted each Center's revenue as follows:

- BHSH recorded revenue growth due to an increase in surgical cases and favourable changes in case mix attributable to an increase in inpatient cases, partially offset by a less favourable payor mix and a $0.2 million decline in EHR incentive payments.

- DPSC recorded a favourable shift in case mix, annual price increases and higher surgical case volumes, which were partially offset by a $0.4 million decline in EHR incentive payments.

- SFSH's revenue remained consistent with the same period last year as favourable changes in case mix, annual price increases, and growth in ancillary revenue were offset by a decline in surgical cases, primarily plastic surgery and neurosurgery, and an unfavourable change in payor mix.

- OSH's revenue decline is attributable to an unfavourable change in case mix, lower case volumes and a $0.1 million decline in EHR incentive payments, which were partially offset by favourable changes in payor mix attributable to an increase in cases with higher reimbursement rates.

- ASH recorded an increase in surgical cases which was offset by a $0.6 million decline in EHR incentive payments and unfavourable changes in payor mix.

- SCNC's revenue was negatively impacted by unfavourable changes in case and payor mix and a decline in case volumes.

Operating Expenses

Consolidated operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses, depreciation of property and equipment, and amortization of other intangibles, ("operating expenses") totaled $63.2 million, a decrease of $1.5 million or 2.3%. As a percentage of revenue, operating expenses declined slightly to 72.1% from 72.2% in the same period a year earlier.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2014**	**Percentage of Revenue**	**2013**	**Percentage of Revenue**	**$ Change**	**% Change**
BHSH	14,178	65.4%	13,787	67.7%	391	2.8%
DPSC	2,692	52.1%	2,384	46.4%	308	12.9%
SFSH	14,607	55.8%	14,702	56.1%	(95)	(0.6%)
OSH	13,523	80.2%	13,788	72.5%	(265)	(1.9%)
ASH(1)	11,542	73.1%	12,099	74.0%	(557)	(4.6%)
SCNC	1,574	79.7%	1,564	61.5%	10	0.6%
Corporate(2)	5,080	n/a	6,370	n/a	(1,290)	(20.3%)
Operating expenses(1)(2)	**63,196**	**72.1%**	**64,694**	**72.2%**	**(1,498)**	**(2.3%)**

(1) As a result of an error in accounting for leases at one of the Corporation's subsidiaries, the Corporation made an immaterial non-cash correction to general and administrative expenses to reflect the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made by the subsidiary. This adjustment is reflected for each period shown in the table above.

(2) To comply with the requirements of the Canadian securities regulators, in 2014, the Corporation included amortization of other intangibles as part of operating expenses. Prior to 2014, amortization of other intangibles was classified separately from operating expenses. This change in treatment is reflected for each period shown in the table above. As a result of the different treatment, certain metrics appear different than reported in prior financial statements and MD&A.

Consolidated salaries and benefits remained consistent between the reporting periods. Salaries and benefits at the Center level were impacted by annual wage and salary increases of $0.3 million as well as higher health insurance and benefits costs of $0.2 million, which were partially offset by reduced staffing levels at some of the Centers of $0.2 million. Salaries and benefits at the corporate level were lower compared to the same period in 2013 due to a decline in executives' incentive awards ($0.2 million) and 2013 contractual payments to a former officer of the Corporation ($0.1 million). As a percentage of revenue, consolidated salaries and benefits increased to 24.3% from 23.8% a year earlier.

Consolidated drugs and supplies decreased by $1.0 million or 4.2% due to the changes in case mix ($0.5 million) and several purchasing initiatives at the Centers ($0.5 million). As a percentage of revenue, consolidated cost of drugs and supplies declined to 27.1% from 27.7% a year earlier.

Consolidated general and administrative expenses ("G&A") increased by $0.8 million or 6.7%. The increase in G&A was attributable to a number of factors, most considerable of which were the contribution of $0.4 million to Patient Choice for South Dakota in support of Initiated Measure 17, sales tax refund of $0.2 million received by ASH in 2013, and physician and management recruitment costs of $0.1 million. As a percentage of revenue, consolidated G&A increased to 13.8% from 12.7% a year earlier.

Consolidated amortization of other intangibles declined by $1.1 million or 23.7% primarily due to the expiration of amortization periods for referral sources from physicians non-owners. As a percentage of revenue, consolidated amortization of other intangibles declined to 4.1% from 5.2% a year earlier.

Income from Operations

Consolidated income from operations of $24.4 million was $0.5 million or 2.0% lower than consolidated income from operations recorded a year earlier, representing 27.9% of revenue compared to 27.8% in the same period in 2013.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2014**	**Percentage of Revenue**	**2013**	**Percentage of Revenue**	**$ Change**	**% Change**
BHSH	7,509	34.6%	6,577	32.3%	932	14.2%
DPSC	2,474	47.9%	2,752	53.6%	(278)	(10.1%)
SFSH	11,551	44.2%	11,497	43.9%	54	0.5%
OSH	3,330	19.8%	5,238	27.5%	(1,908)	(36.4%)
ASH(1)	4,241	26.9%	4,254	26.0%	(13)	(0.3%)
SCNC	402	20.3%	978	38.5%	(576)	(58.9%)
Corporate(2)	(5,080)	n/a	(6,370)	n/a	1,290	(20.3%)
Income from operations(1)(2)	**24,427**	**27.9%**	**24,926**	**27.8%**	**(499)**	**(2.0%)**

(1) As a result of an error in accounting for leases at one of the Corporation's subsidiaries, the Corporation made an immaterial non-cash correction to general and administrative expenses to reflect the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made by the subsidiary. This adjustment is reflected for each period shown in the table above.

(2) To comply with the requirements of the Canadian securities regulators, in 2014, the Corporation included amortization of other intangibles as part of operating expenses. Prior to 2014, amortization of other intangibles was classified separately from operating expenses. This change in treatment is reflected for each period shown in the table above. As a result of the different treatment, certain metrics appear different than reported in prior financial statements and MD&A.

Finance Costs

Change in Value of Convertible Debentures

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

The following table provides calculation of the change in value of 5.9% debentures for the reporting periods:

	2014			2013		
In thousands of U.S. dollars, except as indicated otherwise	**Dec 31**	**Sep 30** *Unaudited*	**Change**	**Dec 31**	**Sep 30** *Unaudited*	**Change**
Face value of convertible debentures outstanding	C$41,786,000	C$41,786,000	-	C$41,800,000	C$41,800,000	-
Closing price of convertible debentures outstanding	C$105.50	C$102.50	C$3.00	C$105.00	C$101.25	C$3.75
Closing exchange rate of U.S. dollar to Canadian dollar	1.1601	1.1200	0.0401	1.0636	1.0303	0.0333
Market value of convertible debentures outstanding	**38,000**	**38,242**	**(242)**	**41,266**	**41,078**	**188**

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, which is re-measured at each reporting date, and the changes in fair value are included in net income for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the

(i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) changes in the market price of the Corporation's common shares, and (iii) fluctuations of the value of the Canadian dollar against the U.S. dollar.

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

	2014			2013		
In thousands of U.S. dollars, except as indicated otherwise	**Dec 31**	**Sep 30** *Unaudited*	**Change**	**Dec 31**	**Sep 30** *Unaudited*	**Change**
Number of common shares to be issued for exchangeable interest liability	5,851,799	6,009,415	(157,616)	6,274,969	6,271,197	3,772
Closing price of the Corporation's common shares	C$18.41	C$15.86	C$2.55	C$17.94	C$15.81	C$2.13
Closing exchange rate of U.S. dollar to Canadian dollar	1.1601	1.1200	0.0401	1.0636	1.0303	0.0333
Exchangeable interest liability	**92,864**	**85,101**	**7,763**	**105,841**	**96,232**	**9,609**
Exercise of exchangeable rights by non-controlling interest			293			-
Change in value of exchangeable interest liability			**8,056**			**9,609**

Interest on Exchangeable Interest Liability

The decrease of $0.7 million in interest expense on the exchangeable interest liability is primarily due to the variation in distributions from the Centers between the reporting periods.

Interest Expense

Interest expense, net of interest income, remained consistent with the same period last year at $0.9 million.

Foreign Currency Losses

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares and convertible debentures are made in Canadian dollars. The change in foreign currency losses of $0.9 million compared to the same period in 2013 is primarily attributable to the fluctuations in the value of the Canadian dollar in relation to U.S. dollar during the three months ended December 31, 2014 compared to the same period in 2013.

Income Tax

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

Unaudited	**Three Months Ended December 31,**			
In thousands of U.S. dollars	**2014**	**2013**	**$ Change**	**% Change**
Current income tax expense	2,264	1,240	1,024	82.6%
Deferred income tax expense (recovery)	1,075	(13,426)	14,501	(108.0%)
Income tax expense (recovery)	**3,339**	**(12,186)**	**15,525**	**(127.4%)**

The increase in current income tax expense is primarily attributable to a higher limitation on the deduction of the interest on the intercompany debt as well as higher non-deductible expenses. The increase in deferred income tax expense is primarily attributable to the tax effect of the change in exchangeable interest liability and the utilization of the deferred tax asset related to the Canadian cumulative tax operating losses.

Net Income

A $12.5 million decline in net income was primarily due to an increase in income tax expense as described above.

<u>Year Ended December 31, 2014</u>

The following table and discussion compare operating and financial results of the Corporation for the year ended December 31, 2014 to the year ended December 31, 2013.

	Years Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2014**	**2013**	**$ Change**	**% Change**
Facility service revenue	311,834	309,162	2,672	0.9%
Operating expenses[1][2]				
Salaries and benefits	81,291	79,947	1,344	1.7%
Drugs and supplies	87,483	86,425	1,058	1.2%
General and administrative expenses[1]	45,826	42,921	2,905	6.8%
Depreciation of property and equipment	9,980	9,465	515	5.4%
Amortization of other intangibles[2]	16,018	17,128	(1,110)	(6.5%)
	240,598	235,886	4,712	2.0%
Income from operations[1][2]	**71,236**	**73,276**	**(2,040)**	**(2.8%)**
Finance costs				
Increase (decrease) in values of convertible debentures	(3,253)	306	(3,559)	(1,163.1%)
Increase (decrease) in value of exchangeable interest liability	(12,684)	20,414	(33,098)	(162.1%)
Interest expense on exchangeable interest liability	8,603	9,006	(403)	(4.5%)
Interest expense, net of interest income	3,683	4,742	(1,059)	(22.3%)
Loss on foreign currency	5,091	5,561	(470)	(8.5%)
	1,440	40,029	(38,589)	(96.4%)
Income before income taxes[1]	**69,796**	**33,247**	**36,549**	**109.9%**
Income tax expense (recovery)[1]	14,815	(11,362)	26,177	(230.4%)
Net income for the year[1]	**54,981**	**44,609**	**10,372**	**23.3%**
Attributable to:				
Owners of the Corporation[1]	23,308	11,020	12,288	111.5%
Non-controlling interest[1]	31,673	33,589	(1,916)	(5.7%)
Basic earnings per share attributable to owners of the Corporation[1]	$ 0.744	$ 0.362	0.382	105.5%
Fully diluted earnings per share attributable to owners of the Corporation[1]	$ 0.560	$ 0.362	0.198	54.7%

[1] As a result of an error in accounting for leases at one of the Corporation's subsidiaries, the Corporation made an immaterial non-cash correction to general and administrative expenses to reflect the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made by the subsidiary. This adjustment is reflected for each period shown in the table above.

[2] To comply with the requirements of the Canadian securities regulators, in 2014, the Corporation included amortization of other intangibles as part of operating expenses. Prior to 2014, amortization of other intangibles was classified separately from operating expenses. This change in treatment is reflected for each period shown in the table above. As a result of the different treatment, certain metrics appear different than reported in prior financial statements and MD&A.

Revenue

	Years Ended December 31,			
In thousands of U.S. dollars	**2014**	**2013**	**$ Change**	**% Change**
BHSH	76,687	69,345	7,342	10.6%
DPSC	14,452	16,002	(1,550)	(9.7%)
SFSH	88,118	89,304	(1,186)	(1.3%)
OSH	63,913	66,703	(2,790)	(4.2%)
ASH	60,450	58,602	1,848	3.2%
SCNC	8,214	9,206	(992)	(10.8%)
Facility service revenue	**311,834**	**309,162**	**2,672**	**0.9%**

For the year ended December 31, 2014, revenue grew by $2.7 million or 0.9%, which was attributable to an increase in case volumes which generated additional revenue of $7.9 million, a favourable shift in case mix and price increases of $2.8 million and growth in ancillary revenue of $2.2 million, partially offset by an unfavourable shift in payor mix of $9.0 million and a decline in EHR incentive payments of $1.3 million.

Total surgical cases increased by 2.7% and pain management procedures increased by 6.4%. Net revenue per surgical case decreased by 2.2%, reflecting a decline in inpatient cases which generate higher per case revenue. Payor mix had a higher proportion of cases funded by payors with higher reimbursement rates and directly by patients.

The above factors impacted each Center's revenue as follows:

- BHSH recorded revenue growth due to increases in surgical cases and urgent care revenue which was partially offset by a $0.2 million decline in EHR incentive payment.

- DPSC recorded a decline in surgical cases, unfavourable changes in payor mix and a $0.4 million decline in EHR incentive payments, partially offset by a favourable case mix and annual price increases.

- SFSH recorded a decline in revenue due to an unfavourable shift in payor mix and a decrease in surgical cases, which were partially offset by an increase in inpatient case volumes resulting in favourable changes in case mix, annual price increases and an increase in ancillary revenue.

- OSH's revenue was negatively impacted by unfavourable changes in payor and case mix and a $0.1 million decline in EHR incentive payments despite growth in surgical cases.

- ASH benefited from an increase in surgical case volumes and a favourable shift in payor mix, which were partially offset by a $0.6 million decline in EHR incentive payments.

- SCNC's revenue was impacted by a less favourable payor mix, which was partially offset by the growth in surgical cases.

Operating Expenses

Operating expenses totaled $240.6 million, an increase of $4.7 million or 2.0% compared to 2013. As a percentage of revenue, operating expenses increased to 77.2% from 76.3% a year earlier.

	Years Ended December 31,					
In thousands of U.S. dollars	**2014**	**Percentage of Revenue**	**2013**	**Percentage of Revenue**	**$ Change**	**% Change**
BHSH	53,577	69.9%	50,470	72.8%	3,107	6.2%
DPSC	9,258	64.1%	8,777	54.8%	481	5.5%
SFSH	51,988	59.0%	51,052	57.2%	936	1.8%
OSH	52,244	81.7%	51,260	76.8%	984	1.9%
ASH(1)	46,060	76.2%	45,822	78.2%	238	0.5%
SCNC	6,043	73.6%	5,656	61.4%	387	6.8%
Corporate(2)	21,428	n/a	22,849	n/a	(1,421)	(6.2%)
Operating expenses(1)(2)	**240,598**	**77.2%**	**235,886**	**76.3%**	**4,712**	**2.0%**

(1) As a result of an error in accounting for leases at one of the Corporation's subsidiaries, the Corporation made an immaterial non-cash correction to general and administrative expenses to reflect the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made by the subsidiary. This adjustment is reflected for each period shown in the table above.

(2) To comply with the requirements of the Canadian securities regulators, in 2014, the Corporation included amortization of other intangibles as part of operating expenses. Prior to 2014, amortization of other intangibles was classified separately from operating expenses. This change in treatment is reflected for each period shown in the table above. As a result of the different treatment, certain metrics appear different than reported in prior financial statements and MD&A.

Consolidated salaries and benefits increased by $1.3 million or 1.7%. At the Center level, salaries and benefits were impacted by annual wage and salary increases of $1.2 million, higher health insurance and benefits costs of $1.3 million and costs related to urgent and primary care of $0.4 million, which were partially offset by outsourcing of information technology costs of $0.3 million. At the corporate level, salaries and benefits declined due to the completion of contractual payments to a former officer of the Corporation ($0.6 million in 2013), the decrease in the value of the Corporation's deferred share unit plan of $0.5 million and a decline in executives' incentive awards of $0.2 million. As a percentage of revenue, consolidated salaries and benefits increased to 26.1% from 25.9% a year earlier.

Consolidated drugs and supplies increased by $1.1 million or 1.2%, as $1.8 million growth in case volumes was partially offset by cost savings of $0.7 million due to purchasing initiatives introduced in the second half of 2014. As a percentage of revenue, consolidated cost of drugs and supplies increased slightly to 28.1% from 28.0% a year earlier.

Consolidated G&A increased by $2.9 million or 6.8%. This increase is attributable to (i) increases in contractual and purchased services of $1.1 million, (ii) contributions of $0.6 million to Patient Choice for South Dakota in support of Initiated Measure 17, (iii) professional fee increases of $0.4 million, and (iv) physician and management recruitment costs of $0.3 million. As a percentage of revenue, consolidated G&A increased to 14.7% from 13.9% a year earlier.

Consolidated depreciation of property and equipment increased by $0.5 million or 5.4% primarily due to increased depreciation attributable to an investment in EHR at SFSH and a second urgent care location at BHSH. As a percentage of revenue, consolidated depreciation of property and equipment increased slightly to 3.2% from 3.1% a year earlier.

Consolidated amortization of other intangibles declined by $1.1 million or 6.5% primarily due to the expiration of amortization periods for referral sources from physicians non-owners. As a percentage of revenue, consolidated amortization of other intangibles declined to 5.1% from 5.5% a year earlier.

Income from Operations

Consolidated income from operations of $71.2 million was $2.0 million or 2.8% lower than consolidated income from operations recorded a year earlier, representing 22.8% of revenue compared to 23.7% in 2013, due to increased operating expenses.

	Years Ended December 31,					
In thousands of U.S. dollars	**2014**	**Percentage of Revenue**	**2013**	**Percentage of Revenue**	**$ Change**	**% Change**
BHSH	23,110	30.1%	18,875	27.2%	4,235	22.4%
DPSC	5,194	35.9%	7,225	45.2%	(2,031)	(28.1%)
SFSH	36,130	41.0%	38,252	42.8%	(2,122)	(5.5%)
OSH	11,669	18.3%	15,443	23.2%	(3,774)	(24.4%)
ASH(1)	14,390	23.8%	12,780	21.8%	1,610	12.6%
SCNC	2,171	26.4%	3,550	38.6%	(1,379)	(38.8%)
Corporate(2)	(21,428)	n/a	(22,849)	n/a	1,421	(6.2%)
Income from operations(1)(2)	**71,236**	**22.8%**	**73,276**	**23.7%**	**(2,040)**	**(2.8%)**

(1) As a result of an error in accounting for leases at one of the Corporation's subsidiaries, the Corporation made an immaterial non-cash correction to general and administrative expenses to reflect the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made by the subsidiary. This adjustment is reflected for each period shown in the table above.

(2) To comply with the requirements of the Canadian securities regulators, in 2014, the Corporation included amortization of other intangibles as part of operating expenses. Prior to 2014, amortization of other intangibles was classified separately from operating expenses. This change in treatment is reflected for each period shown in the table above. As a result of the different treatment, certain metrics appear different than reported in prior financial statements and MD&A.

Finance Costs

Change in Value of Convertible Debentures

The following table provides calculation of the change in value of 5.9% debentures for the reporting periods:

	2014	**2013**		**2013**	**2012**	
In thousands of U.S. dollars, except as indicated otherwise	**Dec 31**	**Dec 31**	**Change**	**Dec 31**	**Dec 31**	**Change**
Face value of convertible debentures outstanding	C$41,786,000	C$41,800,000	(C$14,000)	C$41,800,000	C$41,800,000	-
Closing price of convertible debentures outstanding	C$105.50	C$105.00	C$0.50	C$105.00	C$101.00	C$4.00
Closing exchange rate of U.S. dollar to Canadian dollar	1.1601	1.0636	0.0965	1.0636	0.9949	0.0687
Market value of convertible debentures outstanding	**38,000**	**41,266**	**(3,266)**	**41,266**	**42,434**	**(1,168)**
Effect of conversion			13			-
Change in value of convertible debentures			**(3,253)**			**(1,168)**

The 7.5% debentures matured on April 30, 2013. As of the date of their maturity, the change in value of 7.5% debentures was $1,474.

Change in Value of Exchangeable Interest Liability

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

	2014	2013		2013	2012	
In thousands of U.S. dollars, except as indicated otherwise	**Dec 31**	**Dec 31**	**Change**	**Dec 31**	**Dec 31**	**Change**
Number of common shares to be issued for exchangeable interest liability	5,851,799	6,274,969	(423,170)	6,274,969	6,162,453	112,516
Closing price of the Corporation's common shares	C$18.41	C$17.94	C$0.47	C$17.94	C$13.84	C$4.10
Closing exchange rate of U.S. dollar to Canadian dollar	1.1601	1.0636	0.0965	1.0636	0.9949	0.0687
Exchangeable interest liability	**92,864**	**105,841**	**(12,977)**	**105,841**	**85,726**	**20,115**
Exercise of exchangeable rights by non-controlling interest			293			299
Change in value of exchangeable interest liability			**(12,684)**			**20,414**

Interest on Exchangeable Interest Liability

The decline of $0.4 million in interest expense on exchangeable interest liability is primarily due to the variation in distributions from the Centers between the reporting periods.

Interest Expense

The decrease of $1.1 million in interest expense, net of interest income, is primarily due to the maturity of the 7.5% debentures on April 30, 2013.

Foreign Currency Losses

The decrease in foreign currency losses of $0.5 million is primarily attributable to the fluctuations in the value of the Canadian dollar in relation to the U.S. dollar during 2014.

Income Tax

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

	Years Ended December 31,			
In thousands of U.S. dollars	**2014**	**2013**	**$ Change**	**% Change**
Current income tax expense	1,929	1,929	-	-
Deferred income tax expense (recovery)	12,886	(13,291)	26,177	(197.0%)
Income tax expense (recovery)	**14,815**	**(11,362)**	**26,177**	**(230.4%)**

The increase in deferred income tax expense is primarily attributable to the tax effect of the change in exchangeable interest liability partially offset by the utilization of the deferred tax asset related to the Canadian cumulative tax operating losses.

Net Income

A $10.4 million increase in net income for the year was primarily attributable to the impact of the decline in the value of exchangeable interest liability partially offset by the increase in income tax expense.

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results

(unaudited)	2014				2013			
In thousands of U.S. dollars, except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Facility service revenue	87,623	76,964	74,353	72,894	89,620	72,974	73,677	72,891
Operating expenses(1)(2)								
Salaries and benefits	21,295	19,647	20,123	20,226	21,350	19,601	19,439	19,556
Drugs and supplies	23,768	22,379	20,667	20,669	24,815	20,843	20,707	20,060
General and administrative expenses(1)	12,099	11,202	10,917	11,608	11,344	10,141	10,581	10,855
Depreciation of property and equipment	2,464	2,528	2,509	2,479	2,505	2,458	2,312	2,191
Amortization of other intangibles(2)	3,570	4,195	4,149	4,104	4,680	4,195	4,149	4,104
	63,196	59,951	58,365	59,086	64,694	57,238	57,188	56,766
Income from operations(1)(2)	**24,427**	**17,013**	**15,988**	**13,808**	**24,926**	**15,736**	**16,489**	**16,125**
Finance costs								
Increase (decrease) in values of convertible debentures	(242)	(2,933)	(971)	893	188	(154)	(3,232)	3,504
Increase (decrease) in value of exchangeable interest liability	8,056	(19,762)	(11,977)	10,999	9,609	7,816	(4,609)	7,598
Interest expense on exchangeable interest liability	2,064	1,849	2,132	2,558	2,738	1,995	1,939	2,334
Interest expense, net of interest income	931	911	890	951	958	922	1,142	1,720
Loss (gain) on foreign currency	1,705	2,876	(2,598)	3,108	2,573	(2,105)	3,079	2,014
	12,514	(17,059)	(12,524)	18,509	16,066	8,474	(1,681)	17,170
Income (loss) before income taxes(1)	**11,913**	**34,072**	**28,512**	**(4,701)**	**8,860**	**7,262**	**18,170**	**(1,045)**
Income tax expense (recovery)(1)	3,339	8,530	5,548	(2,602)	(12,186)	(1,688)	3,588	(1,076)
Net income (loss) for the period(1)	**8,574**	**25,542**	**22,964**	**(2,099)**	**21,046**	**8,950**	**14,582**	**31**
Attributable to:								
Owners of the Corporation(1)	(1,587)	17,860	15,686	(8,651)	10,138	982	7,307	(7,407)
Non-controlling interest(1)	10,161	7,682	7,278	6,552	10,908	7,968	7,275	7,438
Earnings (loss) per share attributable to owners of the Corporation:(1)								
Basic	$ (0.051)	$ 0.570	$ 0.500	$ (0.276)	$ 0.323	$ 0.031	$ 0.237	$ (0.261)
Fully diluted	$ (0.051)	$ 0.115	$ 0.241	$ (0.276)	$ 0.323	$ 0.031	$ 0.093	$ (0.261)

(1) As a result of an error in accounting for leases at one of the Corporation's subsidiaries, the Corporation made an immaterial non-cash correction to general and administrative expenses to reflect the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made by the subsidiary. This adjustment is reflected for each period shown in the table above.

(2) To comply with the requirements of the Canadian securities regulators, in 2014, the Corporation included amortization of other intangibles as part of operating expenses. Prior to 2014, amortization of other intangibles was classified separately from operating expenses. This change in treatment is reflected for each period shown in the table above. As a result of the different treatment, certain metrics appear different than reported in prior financial statements and MD&A.

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

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

- The changes in operating expenses are consistent with fluctuations in case volumes and case mix as well as development costs for urgent and primary care.

- The changes in the recorded values of the convertible debentures have been driven by the changes in the market price of the Corporation’s convertible debentures and fluctuations in the value of the Canadian dollar against the U.S. dollar.

- The changes in the recorded value of the exchangeable interest liability have been driven by (i) the changes in the number of common shares issuable for the exchangeable interest liability, which are in turn driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) the changes in the market price of the Corporation’s common shares, and (iii) the fluctuations of the value of the Canadian dollar against the U.S. dollar.

- The fluctuations in interest expense on the exchangeable interest liability are due to the variation in distributions from the Centers between the reporting periods.

- The fluctuations in loss (gain) on foreign currency have been driven by the movements of exchange rate of the Canadian dollar in relation to U.S. dollar.

- Fluctuations in current income taxes have been driven by the changes in operating performance of the Centers, deductible corporate expenses, interest expense 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 losses.

7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

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

		Three Months Ended December 31,		Years Ended December 31,	
		2014	2013	2014	2013
In thousands of U.S. dollars, except as indicated otherwise		*Unaudited*			
CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**27,197**	**31,089**	**88,000**	**85,902**
Non-controlling interest in cash flows of the Centers(1)		(13,739)	(14,524)	(44,344)	(44,447)
Interest expense on exchangeable interest liability(2)		2,064	2,115	8,603	9,006
Difference between straight-line rent expense and actual payments made(3)		123	150	563	668
Maintenance capital expenditures(4)		(1,062)	(912)	(2,984)	(4,295)
Difference between accrual based amounts and actual cash flows related to interest and taxes(5)		(2,930)	(1,007)	(1,270)	(4,897)
Change in non-cash operating working capital items(6)		912	(2,326)	(3,840)	3,308
Realized gains (losses) on foreign exchange forward contracts which matured in the current period(7)		(981)	(389)	(3,034)	97
Repayment of debt (non-revolving)(8)		(836)	(1,324)	(4,242)	(5,704)
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**10,748**	**12,872**	**37,452**	**39,638**
	CDN	**12,205**	**13,508**	**41,366**	**40,823**
Realized losses (gains) on matured foreign exchange forward contracts, net of taxes	USD	579	229	1,790	(58)
CASH AVAILABLE FOR DISTRIBUTION EXCLUDING REALIZED LOSSES (GAINS) ON FOREIGN EXCHANGE FORWARD CONTRACTS	**USD**	**11,327**	**13,101**	**39,242**	**39,580**
	CDN	**12,863**	**13,748**	**43,343**	**40,763**
DISTRIBUTIONS	**CDN**	**8,808**	**8,822**	**35,261**	**34,402**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE(9)					
Including realized losses (gains) on foreign exchange forward contracts	**CDN**	**$ 0.390**	**$ 0.431**	**$ 1.320**	**$ 1.340**
Excluding realized losses (gains) on foreign exchange forward contracts	**CDN**	**$ 0.411**	**$ 0.438**	**$ 1.383**	**$ 1.338**
TOTAL DISTRIBUTIONS PER COMMON SHARE(9)	**CDN**	**$ 0.281**	**$ 0.281**	**$ 1.125**	**$ 1.129**
PAYOUT RATIO					
Including realized losses (gains) on foreign exchange forward contracts		**72.1%**	**65.2%**	**85.2%**	**84.3%**
Excluding realized losses (gains) on foreign exchange forward contracts		**68.4%**	**64.2%**	**81.3%**	**84.4%**
Average exchange rate of Cdn$ to US$ for the period		1.1356	1.0494	1.1045	1.0299
Weighted average number of common shares outstanding		31,317,912	31,366,749	31,344,891	30,474,446

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

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

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

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

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

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

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

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

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

Cash available for distribution in the three months ended December 31, 2014 (Cdn$12.2 million) exceeded the total amount of distributions in the same period (Cdn$8.8 million) by Cdn$3.4 million. On a per common share basis, cash available for distribution of Cdn$0.390 was Cdn$0.109, or 38.8%, higher than distributions of Cdn$0.281, resulting in a payout ratio of 72.1% as compared to a payout ratio of 65.2% in the same period in 2013.

Cash available for distribution in the year ended December 31, 2014 (Cdn$41.4 million) exceeded the total amount of distributions in the same period (Cdn$35.3 million) by Cdn$6.1 million. On a per common share basis, cash available for distribution of Cdn$1.320 was Cdn$0.195, or 17.3%, higher than distributions of Cdn$1.125, resulting in a payout ratio of 85.2% as compared to a payout ratio of 84.3% in the same period in 2013.

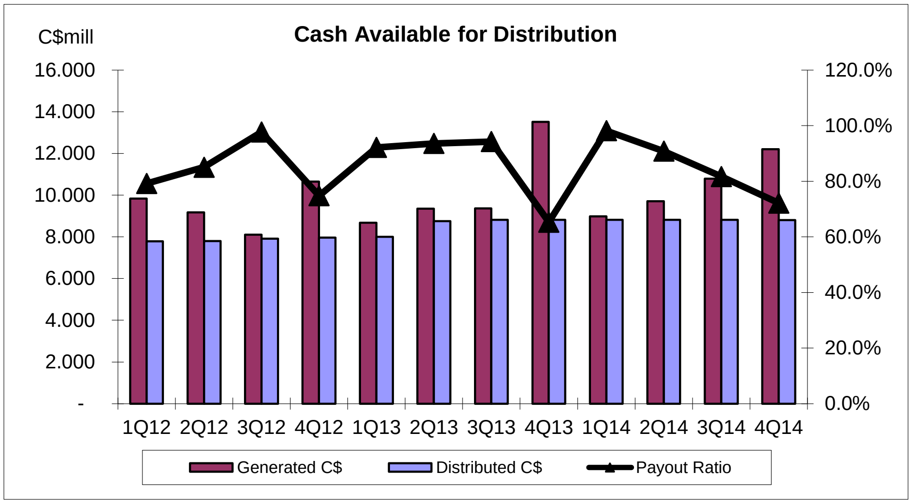
The Corporation's cash available for distribution comes solely from the Centers. The following table provides a reconciliation of cash generated at the Center level to the Corporation's cash available for distributions.

	Three Months Ended December 31,		**Years Ended December 31,**	
	2014	**2013**	**2014**	**2013**
In thousands of U.S. dollars	*Unaudited*			
Cash flows from the Centers:				
Income before interest expense and depreciation	31,930	33,760	102,481	105,428
Debt service costs:				
Interest	(362)	(402)	(1,381)	(1,433)
Repayment of debt (non-revolving)	(836)	(1,324)	(4,242)	(5,704)
Maintenance capital expenditures	(1,062)	(912)	(2,984)	(4,295)
Difference between straight-line rent expense and actual payments made	123	150	563	668
Cash available for distribution at Center level	29,793	31,272	94,437	94,664
Non-controlling interest in cash available for distribution at Center level	(13,739)	(14,524)	(44,344)	(44,447)
Corporation's share of the cash available for distribution at Center level	**16,054**	**16,748**	**50,093**	**50,217**
Corporate expenses	(1,514)	(1,655)	(5,441)	(5,446)
Interest expense on convertible debentures	(547)	(592)	(2,237)	(3,301)
Realized gains (losses) on foreign exchange forward contracts which matured in the current period	(981)	(389)	(3,034)	97
Provision for current income taxes	(2,264)	(1,240)	(1,929)	(1,929)
Cash available for distribution	**10,748**	**12,872**	**37,452**	**39,638**

Compared to the three months ended December 31, 2013, the cash available for distribution decreased by US$2.1 million primarily due to higher provision for current income taxes, lower cash flows from the Centers and higher foreign currency losses on foreign exchange forward contracts which matured in the respective periods.

Compared to the year ended December 31, 2013, the cash available for distribution decreased by US$2.2 million primarily due to foreign currency losses on foreign exchange forward contracts which matured in the respective periods, partially offset by lower debt service costs, maintenance capital expenditures and interest expense on convertible debentures.

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 under the heading "Caution Concerning Forward-Looking Statements" of this MD&A, this section contains forward-looking statements including with respect to the overall impact of the U.S. and local economies, ongoing changes in the healthcare industry and management strategies on the Corporation. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth in Section 17 under the heading "Risk Factors" of this MD&A and the Corporation's most recently filed annual information form, that could cause results to differ materially from those described or anticipated in the forward-looking statements.

The outlook for the Corporation is influenced by many inter-related factors including the economy, the healthcare industry and the management strategies of the Corporation.

The Economy

Management's expectations could be impacted by the general state of the U.S. economy, in particular the disposable income of healthcare consumers which impacts the demand for elective medical procedures.

The local economies of the areas served by the Corporation's facilities are important factors in the Corporation's outlook. Management believes that the Corporation will continue to benefit from the fact that over 97% of the Corporation's revenues are generated in jurisdictions that continue to show economic growth and have unemployment rates below the national average.

Healthcare Industry

While impossible to currently quantify, ongoing implementation of the *Patient Protection and Affordable Care Act* ("PPACA"), demographic pressures and growing healthcare costs will result in numerous challenges and opportunities including:

- The challenge of continuing pressure on reimbursement levels from government-funded plans (Medicare, Medicaid and similar plans) and private insurance companies;
- The opportunity arising from reimbursement incentives that will reward healthcare entities that meet specified quality and operational goals and operate in the most efficient and low cost manner; and
- The opportunity for an increase in the number of patients with health insurance which is expected to lead to an increase in surgical cases and a reduction in uncompensated care.

At the same time, the increasing average age and life expectancy of the U.S. population, overall population growth and advances in science and technology will combine to drive demand for the services provided by the Corporation's Centers.

Management Strategies

Management intends to continue to capitalize on the unique attributes of its Centers, including a physician-centric focus complemented by physician ownership and active role in Center management.

The Corporation will, in conjunction with its Centers, continue to focus on:

- Expanding the complement of physicians practicing at the Centers;
- Reviewing and adjusting service lines;
- Achieving benefits of corporate-wide purchasing programs; and
- Sharing and implementing best practices and cost reduction strategies.

Management of the Corporation believes that implementation of these strategies combined with a strong balance sheet, past management track record and continuing search for suitable accretive acquisition opportunities will help sustain the Corporation's operating performance and ability to continue the cash distribution practices.

9. LIQUIDITY AND CAPITAL RESOURCES

As noted in the cautionary language concerning forward-looking disclosures in Section 1 under the heading "Caution Concerning Forward-Looking Statements" of this MD&A, 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 in Section 17 under the heading "Risk Factors" of this MD&A

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

Cash Balances

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

	December 31,	
In thousands of U.S. dollars	**2014**	**2013**
Cash and cash equivalents at Center level	15,830	13,796
Cash and cash equivalents at corporate level	25,479	22,076
Cash and cash equivalents	**41,309**	**35,872**
Short-term investments	9,305	9,065
Long-term investments	3,559	3,807
Cash and cash equivalents, including short-term and long-term investments	**54,173**	**48,744**

Cash Flow Activity

Cash Flow

	Years Ended December 31,			
In thousands of U.S. dollars	**2014**	**2013**	**$ Change**	**% Change**
Cash provided by operating activities	88,000	85,902	2,098	2.4%
Cash used in investing activities	(8,630)	(14,913)	6,283	(42.1%)
Cash used in financing activities	(69,660)	(69,247)	(413)	0.6%
Increase in cash and cash equivalents	**9,710**	**1,742**	**7,968**	**457.4%**
Effect of exchange rate fluctuations on cash balances held	(4,273)	(1,246)	(3,027)	242.9%
Cash and cash equivalents, beginning of the year	35,872	35,376	496	1.4%
Cash and cash equivalents, end of the year	**41,309**	**35,872**	**5,437**	**15.2%**

The Corporation expects to fund operations with cash derived from operating activities. Deficiencies arising from short-term working capital requirements and capital expenditures may be financed on a short-term basis with bank indebtedness as all Centers have lines of credit available to them or on a permanent basis with offerings of securities. Negative changes in the general state of 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 increased by $2.1 million compared to the same period in 2013 primarily due to the changes in non-cash working capital of $7.1 million and a decrease in interest paid of $2.1 million, partially offset by an increase in income and withholding taxes of $4.5 million and lower operating cash flows ($2.6 million).

As at December 31, 2014, the Corporation recorded consolidated net working capital of $61.9 million compared to $44.8 million as at December 31, 2013. The level of working capital, including financing required to cover any deficiencies, is dependent on operating performance of the Corporation and fluctuates from period to period.

Investing Activities

Cash used in investing activities decreased by $6.3 million compared to the same period in 2013 primarily due to lower amount spent on the acquisition of property and equipment and changes in short-term and long-term investments.

Financing Activities

Cash used in financing activities was marginally higher by $0.4 million compared to the same period in 2013.

The Centers have credit facilities in place, excluding capital leases, in the aggregate amount of $59.5 million, of which $37.1 million was utilized as at December 31, 2014. The balances available under the credit facilities, combined with cash and cash equivalents as at December 31, 2014, are available to manage the Corporation's accounts receivable, supply inventory and other short-term cash requirements. The Corporation's access to available financing resources, including those with fixed interest rates, is sufficient to manage its exposure to changes in interest rates on the Centers' revolving credit facilities, which are on a floating basis.

The Corporation has in place a Cdn$50.0 million line of credit with a Canadian chartered bank which matures on July 4, 2015. This line of credit can be used to finance acquisitions, repay convertible debentures, and/or repurchase the Corporation's common shares. As at December 31, 2014, no amount was drawn under this line of credit.

The Corporation's 5.9% debentures are denominated in Canadian dollars and are reflected in the financial statements in U.S. dollars at fair value at the rate of exchange in effect at the balance sheet date. As at December 31, 2014, the Corporation had Cdn$41,786 aggregate principal amount of convertible debentures outstanding. The market value of the 5.9% debentures was $38,000 as of December 31, 2014. The 5.9% debentures pay interest semi-annually in arrears on June 30 and December 31 of each year. The 5.9% debentures mature on December 31, 2019 ("Maturity Date") and are convertible into 52.3286 common shares per Cdn$1,000 principal amount of 5.9% debentures, at any time, at the option of the holder, representing a conversion price of Cdn$19.11 per common share ("Conversion Price"). If the holders of the 5.9% debentures do not exercise the right to convert their holdings into the Corporation's common shares prior to the Maturity Date, the principal amount is due and payable in full. The 5.9% debentures are subordinate to all other existing and future senior unsecured indebtedness of the Corporation.

The 5.9% debentures contain a provision whereby, in connection with a change in control transaction, holders of the 5.9% debentures would be entitled to convert their debentures within a specified time period and would receive, in addition to the number of shares on conversion, additional shares calculated as a function of the change of control offer price and time remaining to maturity.

The 5.9% debentures may not be redeemed by the Corporation on or before December 31, 2015 (except in the case of a change of control as defined in the trust indenture governing the terms of the 5.9% debentures). Thereafter, but prior to December 31, 2017, the 5.9% debentures may be redeemed by the Corporation, in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest up to but excluding the redemption date, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is at least 125% of the Conversion Price. On or after December 31, 2017 but prior to the Maturity Date, the 5.9% debentures may be redeemed in whole or in part from time to time at the option of the Corporation, at a redemption price equal to the principal amount plus accrued and unpaid interest up to but excluding the redemption date.

In December 2014, the Corporation received regulatory approval for a normal course issuer bid under which the Corporation may purchase up to Cdn$522,325 aggregate principal amount of its outstanding 5.9% debentures during the period from December 30, 2014 to December 29, 2015. Under the previous normal course issuer bid which was in effect from December 30, 2013 to December 29, 2014, the Corporation did not repurchase any of its outstanding 5.9% debentures.

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, 2014, are as follows:

		Future payments (including principal and interest)				
In thousands of U.S. dollars	**Carrying values at Dec 31, 2014**	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**Thereafter**
Dividends payable	2,532	2,532	2,532	-	-	-
Accounts payable	15,192	15,192	15,192	-	-	-
Accrued liabilities	17,026	17,026	17,026	-	-	-
Income tax payable	151	151	151	-	-	-
Revolving credit facilities	5,400	5,595	1,135	4,460	-	-
Notes payable and term loans	31,699	35,227	5,283	5,108	22,406	2,430
Finance lease obligations	3,138	3,218	1,139	1,483	596	-
Convertible debentures	38,000	48,089	2,242	4,484	41,363	-
Operating leases and other commitments (not recorded in the financial statements)	-	63,918	7,426	13,791	11,579	31,122
Total contractual obligations	**113,138**	**190,948**	**52,126**	**29,326**	**75,944**	**33,552**

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

10. SHARE CAPITAL AND DIVIDENDS

As noted in the cautionary language concerning forward-looking disclosures in Section 1 under the heading "Caution Concerning Forward-Looking Statements" of this MD&A, 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 in Section 17 under the heading "Risk Factors" of this MD&A and the Corporation's most recently filed annual information form, that could cause results to differ materially from those described or anticipated in the forward-looking statements.

As at December 31, 2014, the Corporation had 31,329,598 common shares. In the event that all Cdn$41,786 aggregate principal amount of 5.9% debentures outstanding were converted into the common shares of the Corporation prior to their maturity date, the total number of additional common shares issuable would be 2,186,603.

Normal Course Issuer Bids

The Corporation's current normal course issuer bid for its common shares is in effect from May 15, 2014 to May 14, 2015. During the three-month period ended December 31, 2014, the Corporation purchased 1,500 of its common shares for a total consideration of $21. During the twelve-month period ended December 31, 2014, the Corporation purchased 55,600 of its common shares for a total consideration of $872.

Pursuant to the Corporation's normal course issuer bid for its common shares which terminated on May 14, 2014, during the three-month period ended December 31, 2013, the Corporation did not purchase any of its common shares. During the twelve-month period ended December 31, 2013, the Corporation purchased 83,300 of its common shares for a total consideration of $1,215.

All common shares acquired under the bids were cancelled. Cancellation of common shares purchased in 2014 reduced the annual dividends paid by the Corporation by Cdn$62,550 (at a current rate of Cdn$1.125 per common share).

Dividends

Dividend declarations are determined based on monthly reviews of the Corporation's earnings, capital expenditures and related cash flows by a sub-committee of the board of directors. Such declarations take into account that the cash generated in the period is to be distributed to the maximum extent considered prudent after (i) debt service obligations, (ii) other expense and tax obligations, and (iii) reasonable reserves for working capital, collateral for foreign exchange forward contracts and capital expenditures. The Corporation maintained a consistent level of monthly distributions since its formation (in aggregate Cdn$1.10 per common share annually) until September 2012, when the monthly distribution was increased to Cdn$0.09375 per common share (or Cdn$1.125 per common share annually). The Corporation expects, subject to its monthly performance reviews as explained above and the judgment of the board of directors, to maintain the current level of dividends on its common shares. Cash distributions declared in the period from January 1, 2014 to December 31, 2014 totaled Cdn$1.125 per common share.

Dividend Reinvestment and Share Purchase Plan

The Corporation has a Dividend Reinvestment and Share Purchase Plan which allows shareholders resident in Canada to automatically re-invest, in a cost-effective manner, the monthly cash dividends on their common shares into additional common shares of the Corporation. In 2014, 31,448 common shares were purchased with reinvested dividends totaling Cdn$558,666.

11. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the consolidated balance sheet as at December 31, 2014 consist of cash and cash equivalents, short-term and long-term investments, accounts receivable, other assets, dividends, accounts payable, accrued liabilities, borrowings (including long-term debt and convertible debentures), foreign exchange forward contracts and exchangeable interest liability.

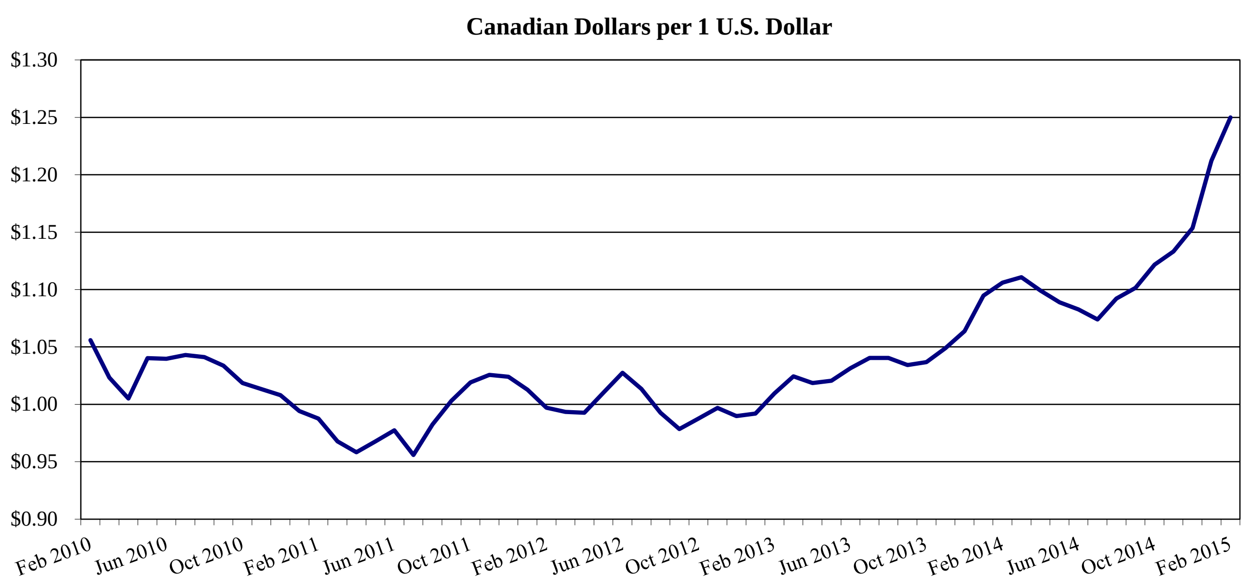
The fair values of convertible debentures and exchangeable interest liability are determined based on the closing trading price of the securities at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these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

Foreign Exchange Risk

The Centers derive revenues, incur expenses and make distributions to their owners, including the Corporation, in U.S. dollars. The Corporation pays dividends to common shareholders in Canadian dollars and incurs a portion of its expenses in Canadian dollars. The amounts of distributions from the Centers to their owners, including the Corporation and non-controlling interest, are dependent on the results of the operations and cash flows generated by the Centers 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 payments and interest payments on the convertible debentures. 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 2010:



The Corporation from time to time may enter into foreign exchange forward contracts. As of December 31, 2014, the Corporation was committed to deliver between US$3.0 million and US$4.2 million monthly to December 2015 in exchange for Canadian dollars at stipulated exchange rates as follows:

Contract Dates	US$ to be Delivered *Thousands*	Cdn$ to be Received *Thousands*	Cdn$ Received per US$ *Weighted Average*
Jan 2015 – Dec 2015	37,158	39,048	1.0509

The fair value of the outstanding foreign exchange forward contracts as at December 31, 2014 was a liability of $3.6 million compared to a liability of $2.8 million at December 31, 2013. The change in the fair value of these foreign exchange forward contracts since December 31, 2013 (a loss of $3.1 million), which is considered unrealized, is recorded as part of the loss on foreign currency. It is the Corporation's intention to maintain these contracts in place until their scheduled maturity dates. The Corporation has no foreign exchange forward contracts beyond 2015.

At the date of this MD&A, the Corporation has provided collateral in the amount of $2.1 million to secure its performance under these contracts.

Credit Risk

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

From time to time, the Corporation enters into foreign exchange forward contracts and places excess funds for investment with certain financial institutions. The current counterparty to the foreign exchange forward contracts is a Canadian chartered bank and the Corporation considers the risk of its default on the contracts to be minimal. 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 Centers are exposed to interest rate fluctuations which can impact their borrowing costs. The Corporation's Centers use floating rate debt facilities for operating lines of credit that fund short-term working capital needs and use fixed rate debt facilities to fund investments and capital expenditures.

Price Risk

The Corporation's convertible debentures and exchangeable interest liability are measured on quoted market prices in active markets and, therefore, the Corporation is exposed to variability in net income as prices change. Price risk includes the impact of foreign exchange.

Liquidity Risk

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

12. RELATED PARTY TRANSACTIONS

The Corporation and the Centers routinely enter into transactions with certain related parties. These parties are considered related through ownership in them by the holders of non-controlling interest in the respective Centers. 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. The exchange amounts represent normal commercial terms.

The Centers entered into transactions with the following related parties during 2014 and 2013:

In thousands of U.S. dollars				Years Ended December 31,	
Entity	**Related Party**	**Nature of Relationships**	**Nature of Transactions**	**2014**	**2013**
BHSH	Black Hills Orthopedic and Spine Center ("BHOSC")	Certain indirect non-controlling owners of BHSH are also owners of BHOSC.	Provision of physical therapy services to BHSH.	239	229
	Neurosurgical & Spinal Surgery Associates ("NSSA")	Certain indirect non-controlling owners of BHSH are also owners of NSSA.	Provision of physical therapy and intra-operative monitoring services to BHSH.	168	268
	Dr. Tim & Kim Watt	Indirect non-controlling physician owners.	Provision of dietary and nutrition counseling to BHSH.	3	-
DPSC	Orthopedic Center of the Dakotas ("OCD")	Certain indirect non-controlling owners of DPSC are also owners of OCD.	Reimbursement by DPSC of salaries and benefits expenses incurred on behalf of DPSC.	392	2,801
	Orthopedic Surgery Specialists ("OSS")	Certain indirect non-controlling owners of DPSC are also owners of OSS.	Provision of certain physician services to DPSC.	3	70
SFSH	Surgical Management Professionals, LLC ("SMP") and Sioux Falls Surgical Physicians, LLC ("Surgical Physicians")	Surgical Physicians own 49% of SFSH. SMP is owned by certain indirect non-controlling owners of SFSH.	SFSH pays to and receives reimbursements from SMP for various shared services, such as utilities, computer software, travel, etc. SMP provides billing and coding services to SFSH and management services to DPSC.	1,481	1,398
	Great Plains Surgical Distributorship ("GPSD")	Certain indirect non-controlling owners of SFSH are also owners of GPSD.	Purchase of medical products from GPSD by SFSH and payment of rental income by GPSD to SFSH.	1,379	872
	Medical Designs	Indirect non-controlling physician owner of SFSH is also owner of Medical Designs.	Purchase of medical products from Medical Designs by SFSH.	1,080	938
	South Dakota Interventional Pain Institute, LLC ("SDIPI")	Surgical Physicians and the Corporation own equity interest in SDIPI.	Use of a facility and related equipment by SFSH.	767	702
	Various professional medical practices[1]	Certain indirect non-controlling owners of SFSH are also owners of various professional medical practices.	Physician professional fees in relation to SFSH's agreement with South Dakota Bureau of Personnel to provide outpatient surgeries under bundled billing arrangements.	377	414
	Orthopedic Institute	Certain indirect non-controlling owners of SFSH are also owners of Orthopedic Institute.	Provision of physical and occupational therapy services to SFSH and lease of space for SFSH's primary care operations.	269	196
	Midwest Urologic Stone Unit LP ("MUSU")	Certain indirect non-controlling owners of SFSH are also owners of MUSU.	Provision of lithotripter services to SFSH.	219	162

In thousands of U.S. dollars				**Years Ended December 31,**	
Entity	**Related Party**	**Nature of Relationships**	**Nature of Transactions**	**2014**	**2013**
	Center Inn	Certain indirect non-controlling owners of SFSH are also owners of Center Inn.	Provision of laundry services to SFSH.	216	223
	Anesthesiology Associates	Certain indirect non-controlling owner of SFSH is also owner of Anesthesiology Associates.	Provision of anesthesia services to SFSH. Anesthesiology Associates lease office space from SFSH.	182	179
	Midwest Medical Care PC ("MMC")	Certain indirect non-controlling owners of SFSH are also owners of MMC.	Lease of space for SFSH's primary care operations.	8	-
OSH	Integrated Medical Delivery, LLC ("IMD")	Certain indirect non-controlling owners of OSH are also owners of IMD.	Provision of office and management services to OSH.	3,000	2,917
	Memorial Property Holdings, LLC ("MPH")	The majority of owners of MPH are also indirect non-controlling owners of OSH.	Lease of hospital building by OSH.	1,488	1,488
	MM Property Holdings, LLC ("MM Property")	MM Property is owned by two physicians who are indirect non-controlling owners in OSH.	Lease of additional office space by OSH.	130	157
ASH	A.S.H. Land & Development, LLC ("ASH L&D")	Certain indirect non-controlling owners of ASH are also owners of ASH L&D.	Lease of facility building by ASH.	3,585	3,480
	A.S.H. Imaging Partners, LLC ("ASH Imaging")	Certain indirect non-controlling owners of ASH are also owners of ASH Imaging.	Sub-lease of MRI equipment by ASH.	594	594
Total related party expenses				**15,580**	**17,088**

(1) SFSH has an agreement with South Dakota Bureau of Personnel to provide specified outpatient surgical procedures including the use of facility, anesthesia, radiology, labs, and physician professional fees. SFSH is reimbursed for these outpatient surgeries based on a fixed fee schedule, which includes the facility and physician professional fees. SFSH entered into fee-for-service agreements for the physician professional fee component with various professional medical practices owned by individuals having an indirect non-controlling ownership in SFSH.

13. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

Revenue

Revenue is recorded in the period when healthcare services are provided based upon actual amounts received and the estimated net realizable amounts due from patients and payors. The amounts due are estimated using established billing rates less adjustments required by contractual arrangements with the payors. Estimates of contractual adjustments are based upon the payment terms specified in the related contractual agreements and payment history. Payor contractual payment terms are generally based upon predetermined rates per procedure or discounted fee-for-service rates. For payors for which the Centers do not have contracts, the Corporation estimates the necessary adjustments based on a twelve-month history of reimbursements on closed cases. If payments from third-party payors were reduced, the revenue and profitability of the Corporation may be adversely affected.

Allowance for Non-Collectible Receivable Balances

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

Impairment of Non-Financial Assets

Non-financial assets that have an indefinite useful life, such as goodwill and trade names, are tested at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets that have definite useful life 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 an asset's fair value less cost to dispose and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses, cash flows, and discount rates at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature, impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Management is required to use judgement in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgement is further required to determine appropriate groupings of CGUs for the level at which goodwill and indefinite life intangible assets are tested for impairment. Each Center represents a separate CGU for the purposes of testing impairment of non-financial assets. In addition, judgement 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 Centers exist, changes to the physician complement at the Centers, decreases in expected future reimbursement rates, declining patient referrals, physical conditions of facilities and equipment, and increased costs of inputs, such as drugs, supplies, and labour.

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

Management calculates the fair value less cost to dispose using the business enterprise fair value approach to estimate the recoverable amount of the CGUs. Management calculates the enterprise value ("EV") of the Corporation as at reporting date based on (i) the market capitalization of the outstanding common shares taking into account a 20% equity control premium attributable to the common shares, (ii) the market value of convertible debentures outstanding, and (iii) the Corporation's portion of the Centers' long-term debt, less (iv) cash on hand. Management then determines the multiple of EV to consolidated earnings before income taxes, depreciation and amortization ("EBITDA"), which is allocated to the CGUs based on their relative contribution to the consolidated EBITDA and risk and return.

Management performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2014 and concluded that the recoverable amount of the CGUs exceeded their carrying amount and, therefore, there was no impairment.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of deferred taxable income. The Corporation's income tax assets and liabilities are based on interpretations of income tax legislation across various jurisdictions in Canada and the United States. The Corporation's effective tax rate can change from year to year based on the mix of income among different jurisdictions, changes in tax laws in these jurisdictions, and changes in the estimated value of deferred tax assets and liabilities. The Corporation's income tax expense reflects an estimate of the cash taxes the Corporation is expected to pay for the current year and a provision for changes arising in the values of deferred tax assets and liabilities during the 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 judgement 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. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2014, the Corporation adopted amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* and IFRIC 21 *Levies* as set out in note 18.22 to the financial statements for the year ended December 31, 2014. The adoption of these amendments and standards did not result in any significant changes to the financial statements.

15. RECENTLY ANNOUNCED ACCOUNTING PRONOUNCEMENTS

The following are IFRS changes that have been issued by the International Accounting Standards Board ("IASB") which may affect the Corporation, but are not yet effective:

IFRS 9 *Financial Instruments* ("**IFRS 9**")

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

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Corporation intends to adopt IFRS 15 for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

16. 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 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.

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

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

In addition to DC&P, under the supervision of, and with the participation of the CEO and the CFO, management has designed internal controls over financial reporting ("ICFR") using the 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 consolidated 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, 2014, and has concluded that the design and effectiveness of these controls and procedures at December 31, 2014 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, 2014 using the COSO framework. Management has concluded that the overall design and effectiveness of these controls at December 31, 2014 provide reasonable assurance of the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

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

There have been no changes in the Corporation’s ICFR during the period beginning on October 1, 2014 and ended on December 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Corporation’s ICFR.

17. 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.sedar.com.

Risks Related to the Business and the Industry of the Corporation

The revenue and profitability of the Corporation and its subsidiaries, including the Centers, 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 Centers is dependent upon physician relationships. There can be no assurance that physician groups performing procedures at the Centers 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 Centers at current levels or at all.

Healthcare facilities, such as the Centers, 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 Centers 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 Centers. 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 that permit existing physician owned hospitals, such as the Centers, 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 full impact of the PPACA on the Corporation is not clear, as the roll-out of the law continues to develop. The Corporation has undertaken an extensive review to ensure that the Centers' operating agreements and procedures are in compliance with the provisions and limitations of the PPACA. As a consequence of its reviews, all Centers have updated the operating agreements and procedures to conform to the requirements of the PPACA.

While the Centers 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 Centers 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 Centers compete with other healthcare facilities in providing services to physicians and patients, contracting with managed care payors and recruiting qualified staff.

The Centers 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" above), represent expenditures that are required to maintain the productive capacity of the Centers. Historically, such expenditures have represented on average 1.4% of revenue of the Centers. 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.

Risks Related to the Structure of the Corporation

The Corporation is entirely dependent on the operations and assets of the Centers through the indirect ownership of between 51.0% and 65.0% of these Centers. Future dividend payments by the Corporation are not guaranteed and are totally dependent upon the operating results and related cash flows from the Centers and the limitations of applicable laws.

The payout by the Centers 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 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.

There can be no assurance that the Corporation will be able to repay the principal amount outstanding on its convertible debentures when due. Additionally, the convertible debentures are payable in Canadian dollars and, therefore, the Corporation is exposed (at maturity and/or repayment) to currency exchange risk with respect to the principal amounts of these instruments.

Non-competition agreements executed by physician owners of the non-controlling interests in the Centers may not be enforceable, which lack of enforceability could impact the revenue and profitability of the Centers.

The Corporation does not have the ability to direct day-to-day governance or management inputs in respect of the Centers, 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 Centers' ability in the future to obtain additional financing for working capital, capital expenditures, acquisitions or other purposes may be limited.

(b) The Corporation or Centers being unable to refinance indebtedness on terms acceptable to the Corporation or at all.

(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 Centers have credit facilities that contain restrictive covenants which may limit the Centers' 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 Centers, in connection with future financing or acquisitions by the Corporation or in connection with the exercise of the conversion option by the holders of the convertible debentures. 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 Centers that are located in South Dakota are formed under the laws of the State of South Dakota. The Center located in Oklahoma is formed under the laws of the State of Oklahoma, the Center located in Arkansas is formed under the laws of the State of Arkansas and the Center located in California is formed under the laws of the State of Delaware. All of the assets of the Centers 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 Centers, 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 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. The Corporation is required to include in computing its taxable income the interest received by the Corporation on the two promissory notes issued by MFA to the Corporation ("MFA Promissory Notes"). Management expects that the Corporation's existing tax attributes will be available initially to offset this income inclusion such that it will not result in an immediate material increase to the Corporation's liability for Canadian taxes. However, once the Corporation fully utilizes its existing tax attributes (or if, for any reason, these attributes were not available to the Corporation), the Corporation's Canadian tax liability would materially increase. Although management intends to explore potential opportunities in the future to preserve the tax efficiency of the Corporation's structure, no assurances can be given that the Corporation's Canadian tax liability will not materially increase at that time.

There can be no assurance that Canadian federal income tax laws and Canada Revenue Agency's 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 Corporation's common shares.

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 income at regular corporate rates (currently 35%, plus state and local taxes). MFA will claim interest deductions with respect to the MFA Promissory Notes in computing its income for U.S. federal income tax purposes. To the extent this interest expense is disallowed or is otherwise not deductible, the U.S. federal income tax liability of MFA will increase, which could materially affect the after-tax cash available to distribute to the Corporation and therefore to holders of common shares. While the Corporation has received advice from an independent third party, based on certain representations by the Corporation and MFA and determinations made by the Corporation's independent financial advisors, that the MFA Promissory Notes should be treated as debt for U.S. federal income tax purposes, it is possible that the Internal Revenue Service ("IRS") could successfully challenge that position and assert that the MFA Promissory Notes should be treated as equity rather than debt for U.S. federal income tax purposes.

The determination of whether the MFA Promissory Notes are debt or equity for U.S. federal income tax purposes is based on an analysis of the facts and circumstances. There is no clear statutory definition of debt for U.S. federal income tax purposes, and its characterization is governed by principles developed in case law, which analyzes numerous factors that are intended to identify the economic substance of the purported creditor's interest in the corporation. Furthermore, not all courts have applied this analysis in the same manner, and some courts have placed more emphasis on certain factors than other courts have. Moreover, subsequent changes in fact or subsequent actions or inactions by the Corporation or MFA could impact this analysis or could be used by the IRS to call into question this analysis or the facts as of the date such indebtedness was incurred. A successful challenge of this position would increase the U.S. federal income tax liability of MFA for the applicable open tax years, which would affect the ability of MFA to make interest and principal payments on the MFA Promissory Notes and would reduce the amount of after-tax cash generated by MFA that could otherwise be available to make distributions to the Corporation. In addition, otherwise deductible payments of interest would be re-characterized as non-deductible equity distributions and would be subject to U.S. withholding tax to the extent MFA had current or accumulated earnings and profits.

Alternatively, the IRS could argue that the interest on the MFA Promissory Notes exceeds an arm's length rate, in which case only the portion of the interest expense that does not exceed an arm's length rate may be deductible and the remainder would be subject to U.S. withholding tax to the extent that MFA had current or accumulated earnings and profits. The Corporation has received advice from independent financial advisors that the interest rates on the MFA Promissory Notes are commercially reasonable in the circumstances. However, the advice received by the Corporation is not binding on the IRS. Furthermore, MFA's deductions attributable to the interest expense on the MFA Promissory Notes may be limited by the amount by which its net interest expense (the interest paid by MFA on all debt, including the MFA Promissory Notes, less its interest income) exceeds 50% of its adjusted taxable income (generally, U.S. federal taxable income before net interest expense, depreciation, amortization and taxes). Any disallowed interest expense may currently be carried forward to future years. Proposed legislation has been introduced, though not enacted, several times in recent years that would further limit the 50% of adjusted taxable income cap described above to 25% of adjusted taxable income, although recent proposals in the U.S. Federal Fiscal Year Budget for 2015 would only apply the revised rules to certain foreign corporations that were expatriated. Furthermore, 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.

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* (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 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 it would otherwise acquire or sell such assets 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.