QIIC

QUANTUM INTERNATIONAL INCOME CORP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2015

GENERAL

The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements (the "Financial Statements") and the notes contained therein of Quantum International Income Corp (the "Company" or "Quantum") for the three and six months ended August 31, 2015 and 2014.

The unaudited condensed interim consolidated financial statements are prepared by management and reported in U.S. dollars, in accordance with International Accounting Standard "IAS" 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's 2015 audited consolidated financial statements and the notes thereto, and the 2015 MD&A filed with Canadian regulatory agencies. The documents are available at www.sedar.com.

This MD&A was prepared effective October 31, 2015.

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FORWARD LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively, "Forward-Looking Statements") and Quantum cautions investors about important factors that could cause Quantum's actual results to differ materially from those expressed, implied or projected in any Forward-Looking Statements included in this MD&A. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "expects", "will continue", "is anticipated", "anticipates", "August", "could", "believes", "estimates", "intends", "plans", "forecast", "projection" and "outlook") are not historical facts and August be Forward-Looking Statements that involve projections, estimates, assumptions, known and unknown risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such Forward-Looking Statements or otherwise materially inaccurate. No assurance can be given that these expectations or assumptions will prove to be correct and such Forward-Looking Statements included in this MD&A should not be unduly relied upon. These Forward-Looking Statements speak only as of management's beliefs and expectations as of the date of this MD&A. In addition, this MD&A August contain Forward-Looking Statements drawn from or attributed to third party sources. Accordingly, any such statements are qualified in their entirety by reference to the information discussed throughout this MD&A.

In particular, this MD&A contains Forward-Looking Statements regarding anticipated future financial, structural, growth and operating performance of Quantum, including as it pertains to the operations detailed in this MD&A and the deployment of capital into new acquisitions.

Actual results August differ materially due to a number of risks and uncertainties faced by Quantum, including, but not limited to: general economic and business conditions; global financial conditions; the failure of Quantum to identify future acquisition targets; third parties honouring their contractual obligations with Quantum and its subsidiaries; relationships with operating and/or joint venture partners; inaccuracy, incompleteness or omissions in any of the financial and other information upon which management bases its analysis of potential acquisitions; the failure to realize the anticipated benefits of Quantum's current and future acquisitions; factors relating to the healthcare industry, including reliance on third-party payors for revenue; licensing, certification and accreditation risk; healthcare regulatory requirements; dependence on physician relationships; litigation, professional liability claims; insurance coverage limitations and uninsured risks; dependence on key personnel at the Quantum and operations level; competition from other healthcare providers; factors relating to the media content generation and distribution industry, including ability to deliver services in a timely manner; changes in technology, consumer markets or demand for media services; changes in federal, provincial and foreign content laws and regulations; dependence on third party content producers; competition for, among other things, capital, equipment and skilled personnel; the inability to generate sufficient cash flow from operations to meet future obligations; the inability to obtain required debt and/or equity financing for future acquisitions on suitable terms; competition for acquisition targets; seasonality and fluctuations in results; and limited diversification of Quantum's business industries, structures and operations.

Quantum cautions that the list and description of Forward-Looking Statements, risks, assumptions and uncertainties set out above is not exhaustive. Quantum will update the Forward-Looking Statements as required by securities law. All Forward-Looking Statements contained in this MD&A are qualified by these cautionary statements.

Unless otherwise specified in this MD&A, information contained in this MD&A is current as of the date of this MD&A. Unless otherwise specified, all dollar amounts herein refer to U.S. dollars. Additional information on these and other factors that could affect the operations or financial results of Quantum and its subsidiaries are included in disclosure documents filed by Quantum with the securities regulatory authorities, available under Quantum's profile on SEDAR at www.sedar.com.

BUSINESS OVERVIEW

Quantum International Income Corp. ("Quantum" or the "Company") is a Healthcare company focused on delivering national integrated health solutions in the United States. The Company seeks to back management teams with strong operational track records and deep healthcare experience. The Company intends for acquired businesses or assets to fit synergistically within a strategic framework, have a proven operating history, opportunities for standalone growth and, potentially in some cases, national expansion. Potential acquisition targets will be in various related areas of the US healthcare industry in different geographic regions to allow for diversification. Overall, Quantum seeks to integrate and grow business in order to generate capital appreciation and, potentially in the future, stable distributions to its shareholders.

RECENT DEVELOPMENTS

Bought deal financing and LTACH acquisition

On June 17, 2015, the Company announced that it has entered into an agreement with Mackie Research Capital Corporation ("Mackie"), as lead underwriter and sole bookrunner on behalf of a syndicate, for the sale on a "bought deal" basis of 47,620,000 subscription receipts of the Company at a price of CAD $0.42 per subscription receipt for gross proceeds of CAD $20,000,400.

The balance of the proceeds were to be released upon the Company meeting certain conditions including i) securing debt financing to close the LTACH purchase ii) meet all closing conditions to purchase the LTACH iii) internalize the management agreement.

On October 28, 2015 the Company announced that the Company was not able to satisfy the release conditions as specified by Mackie Research prior to the release deadline. Accordingly, the Company is not in a position to close the proposed LTACH acquisition. Please refer to subsequent events for further details.

MME

During the period, the Company undertook an initiative to divest its interest in MME through a share buy-back agreement.

On March 19, 2015 the CRTC released its decision that would allow subscribers to purchase cable content through pick-and-pay options. The ruling becomes mandatory starting December 2016 and could adversely affect MME business of bundling content. Following the decision, MME was not able to produce meaningful results and after declining performance, management has decided to divest from the business in the second quarter.

The details of the share buy-back arrangement are as follows:

1) MME will buy back forty percent (40%) of the Class B shares, or 160 shares from QIIC at cost (i.e. CAD$ 200,000 or CAD$ 1,250 per Class B share
2) The remaining 240 shares held by QIIC will be converted into:
    a. a one hundred and fifty thousand dollars (CAD$ 150,000) Note with the following terms:
        i. bearing an annual interest rate of twelve percent (12%),
        ii. twenty four (24) month term,
        repayment via a cash sweeps on cash collections of thirty percent (30%) of the gross profit on collections. Gross profit on collections being defined the cash collection less the related remittance to suppliers which is due on that specific payment.
        iii. secured by GSA over all assets of the business,

b. a three (3) year warrant to acquire twenty percent (20%) of MME at a valuation of three hundred thousand dollars (CAD$ 300,000) exercisable at QIIC's option. MME has the option to purchase the warrant from QIIC during the term.

3) Resignation of Grant White and Manu Sekhri from the MME board of directors.

The Company has yet to administratively execute the share buy-back agreement.

Termination of asset management agreement

On October 28, 2015 the Company announced that the independent directors of the Company unanimously voted to terminate the asset management agreement with QIAM upon 30 days' notice to the External Manager. The board of directors of the Company has also appointed Manu Sekhri as Chief Executive Officer replacing Grant White in that role. It is expected that Manu Sekhri will enter into an employment agreement with the Company on terms to be agreed.

Anesthesia

On May 27, 2015, the Company announced that it has created a purpose built subsidiary, Quantum Anesthesia Management LLC., to acquire all the common shares of DA Management NJ Inc.

DA Management NJ Inc. is an anesthesia company with anesthesia administration contracts at all of NYCSA's New York and New Jersey office based clinics as well as the initial CSS facility in Essex County.

The Company issued 9,000,000 common shares as consideration for this transaction on July 23, 2015, the fair value of consideration paid was CAD $0.41 per share which was the price of the Company's shares on July 2, 2015 the date when all conditions for the transaction have been met. The entire purchase price was allocated to the single intangible asset purchased with DA Management NJ Inc. – the administration service agreement in the amount of $2,972,313. The transaction has taken effect July 1, 2015.

Following the period end, the Company tested DA Management NJ, Inc. for impairment and noted that the recoverable amount of the intangible asset in the entity is $1,459,420. The Company recorded a 1,413,816 impairment charge in the period.

Term promissory note

On October 2, 2015 the Company obtained a $300,000 promissory note from a third party (the "Lender") for working capital purposes. The note was issued a discount for consideration of $250,000. Please refer to subsequent events for further details.

FINANCIAL REVIEW

INCOME STATEMENT

	Three months ended		Six months ended	
	August 31, 2015 $	August 31, 2014 $	August 31, 2015 $	August 31, 2014 $
Revenue				
Net patient revenue	507,485	-	1,310,441	-
Net management fees	160,929	-	160,929	-
	668,414		1,471,370	
Operating and other expenses				
General and administrative expenses (Note 9)	(5,486,093)	(1,271,581)	(6,904,487)	(1,550,269)
Finance income	31	1,253	360	1,253
Finance costs	(54,909)	(2,903)	(58,624)	(7,609)
Gain (loss) on foreign exchange	13,462	(1,598)	58,224	(3,543)
	(5,527,509)	(1,274,829)	(6,904,527)	(1,560,168)
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(4,859,095)	(1,274,829)	(5,433,157)	(1,560,168)
Income taxes (Note 11)				
Current	-	-	-	-
NET LOSS FROM CONTINUING OPERATIONS	(4,859,095)	(1,274,829)	(5,433,157)	(1,560,168)
Net gain (loss) from discontinued operations (Note 4)	10,620	-	(282,413)	-
NET LOSS	(4,848,475)	(1,274,829)	(5,715,570)	(1,560,168)
Attributable to:				
Owners (Note 4)	(4,731,197)	(1,274,829)	(5,577,852)	(1,560,168)
Non-controlling interest	(117,278)	-	(137,718)	-
	(4,848,475)	(1,274,829)	(5,715,570)	(1,560,168)
Earnings (loss) per share attributable to owners (Note 4)				
Basic and diluted (Note 12)	(0.06)	(0.05)	(0.08)	(0.07)
Weighted average common shares issued and outstanding (Note 12)	74,946,387	26,173,587	69,138,053	23,255,977

Revenue

Revenue was $668,414 and $1,471,370 for the three and six month period ended August 31, 2015 respectively and $nil for the three and six month period ended August 31, 2014. Revenue generated in the three month period was attributable to CSS operations and anesthesia administrative services performed. Surgical procedures commenced at CSS-Essex in December 2014.

General & administrative expenses

	Three months ended		Six months ended	
	August 31, 2015	**August 31, 2014**	**August 31, 2015**	**August 31, 2014**
	$	**$**	**$**	**$**
Professional and advisory fees	879,445	930,345	1,251,341	1,041,377
Management fees	458,855	200,357	611,334	294,119
Management relocation	76,010	-	76,010	-
Regulatory and filing fees	69,511	29,970	101,326	54,920
Salaries and benefits	390,367	15,109	673,743	24,235
Depreciation and amortization	223,338	-	341,318	-
General administrative expenses	418,660	95,800	779,252	135,618
Medical supplies used during the period	97,624	-	180,824	-
Impairment of assets (Note 10)	2,602,886	-	2,602,886	-
Stock based compensation	269,397	-	286,452	-
	5,486,093	1,271,581	6,904,487	1,550,269

The increase in general and administrative expenses compared to the comparative three and six months ended August 31, 2014 is primarily related to the operations at CSS-Essex, the Anesthesia business, Provmark, professional fees, financing activities and impairments related to potential acquisitions and intangible assets.

Finance income and finance costs

Finance income includes $31 and $360 interest earned on cash balances during the three and six months ended August 31, 2015 respectively and $1,253 for the three and six months ended August 31, 2014.

The Company incurred interest and bank charges of $54,090 and $58,624 for the three and six months ended August 31, 2015 respectively compared to $2,903 and $7,609 for the three and six months ended August 31, 2014.

Net Loss from Continuing Operations

As a result of the foregoing factors, the net loss from continuing operations for the three and six months ended August 31, 2015 was $4,859,095 and $5,433,157 respectively and $1,274,829 and 1,560,168 for the three and six months ended August 31, 2014 respectively. $120,818 and 87,373 of the net loss for the three months and six months ended August 31, 2015 is attributable to non-controlling interests.

Net Loss from Discontinued Operations

The net gain from discontinued operations for the three months ended August 31, 2015 was $10,620 the net loss from discontinued operations for the six months ended August 31, 2015 was $282,413. The net loss for discontinued operations for the three and six months ended August 31, 2014 was $nil. $3,540 gain and $50,345 of the net loss for the three months and six months ended August 31, 2015 is attributable to non-controlling interests.

Net Loss

The net loss for the three and six months ended August 31, 2015 was $4,859,095 and $5,715,570 respectively and $1,274,829 and $1,560,168 the three and six months ended August 31, 2014 respectively. Net loss attributable to non-controlling interest for the three and six months ended August

31, 2015 was $117,278 and $137,718 respectively and $nil for the three and six months ended August 31, 2014.

Other Comprehensive Loss

Other comprehensive loss for the three and six months ended August 31, 2015 was $7,928 and $7,853 respectively. The other comprehensive loss for the three and six months ended August 31, 2014 was $nil and $17,514. $2,642 and $2,617 of the other comprehensive income (loss) for the three and six months ended August 31, 2015 respectively is attributable to the non-controlling interests.

Net Comprehensive Loss

Net comprehensive loss for the three and six months ended August 31, 2015 was $4,856,400 and $5,723,423 respectively, and $1,274,829 and $1,542,654 for the three and six months ended August 31, 2014 respectively. $119,920 and $140,336 of the net comprehensive loss for the three months ended August 31, 2015 respectively is attributable to the non-controlling interests.

CASH FLOW

	Three months ended	
CASH FLOW FROM (USED IN)	**August 31, 2015 $**	**August 31, 2014 $**
Operating activities	(2,894,148)	(790,955)
Investing activities	(1,365,944)	(3,329,798)
Financing activities	4,524,865	6,388,833
Increase (decrease) in cash and cash equivalents	264,773	2,268,080

Cash flows used in operating activities during the six months ended August 31, 2015 were primarily for payment of operating expenses in the new subsidiaries and corporate expenses, compared to operating expenses of a non-operating company actively pursuing acquisitions during the same period in the prior year.

Cash flows used in investing activities consists of $1,189,070 of deposits and loans in relation to potential acquisitions which were impaired during the three month period ended August 31, 2015. As well, the Company spent $44,095 on acquisition of equipment during the period and $132,779 of cash was classified as held for sale.

Cash flows from financing activities includes proceeds from exercise of warrants of $1,471,641, and $3,094,462 proceeds from issuance of subscription receipts in relation to the bought deal offering.

Net cash generated during the six months ended August 31, 2015 was $264,773 with foreign exchange impact on cash of a loss of $7,850 as compared to cash generated of $2,268,080 and foreign exchange impact on cash of gain of $67,323 for the same period in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objective when managing liquidity and capital resources is to ensure that it has sufficient liquidity to support its financial obligations and fund its operating and strategic objectives.

The Company intends to continue to invest in healthcare companies focused on delivering integrated health solutions.

Working capital

Working capital as at August 31, 2015 was negative $1,141,154, compared to negative working capital of $967,348 as at February 28, 2015. The decrease in working capital is primarily due to incurring additional professional fees in relation to the bought deal financing and due diligence fees in respect to the potential acquisitions. The current working capital requirements consist of transaction related payables, trade payables and labour at the operating company level. The Company will need to rely on its ability to raise funds from capital markets to be able to meet its obligations.

Share capital

During the six months ended period August 31, 2015, 18,577,500 warrants were exercised for total proceeds of $1,471,641, 9,000,000 shares were issued as part of a business acquisition valued at $2,972,313, and 9,524,000 subscription receipts were issued as part of the bough deal financing for proceeds of $3,094,462.

The Company incurred $1,133,634 of share issuance costs associated with the bought deal financing announced June 17, 2015.

Capital management

As the Company continues to assess and seek to acquire an interest in additional businesses, the Company will continue to rely on capital markets and debt financing to support continued growth.

There were no changes in the Company's approach to capital management during the period ended August 31, 2015.

SELECT QUARTERLY INFORMATION (UNAUDITED)

	Quarter Ended November, 30, 2013 $	Quarter Ended February 28, 2014 $	Quarter Ended Mayt 31, 2014 $	Quarter Ended August 31, 2014 $	Quarter Ended November 30, 2014 $	Quarter Ended February 28, 2015 $	Quarter Ended May 31, 2015 $	Quarter Ended August 31, 2015 $
Net loss before special items	(26,902)	(305,712)	(285,338)	(1,274,829)	(1,088,550)	(1,165,330)	(867,095)	(4,848,475)
Basic and diluted loss per share	(0.01)	(0.16)	(0.01)	(0.05)	(0.02)	(0.02)	(0.01)	(0.06)
Total assets	97,072	55,177	677,154	6,315,997	5,591,316	4,763,059	6,315,449	6,637,708
Total long term liabilities	Nil	Nil	Nil	Nil	Nil	$42,701	$37,481	$30,817
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

SEGMENTED INFORMATION

Management has identified four reportable business segments. Each of these reporting segments are managed separately and their results are based on internal management information that is regularly reviewed by the chief operating decision maker.

The Company's three reportable business segments are:

- Medical center operation in the USA, operated through CSS and DA Management NJ Inc. ("CSS")
- USA healthcare marketing and distribution, operated through Provmark ("Provmark")
- Corporate expenses and office of the CEO ("Quantum")

Assets of Quantum are held in Canada, all other assets are held in the United States.

Three Months Ended August 31, 2015	Quantum	Provmark	CSS	Discontinued Operations	Total
	$	$	$	$	$
Net patient revenue	-	-	507,485	-	507,485
Management Fees	-	-	160,929	-	160,929
Operating expenses	(2,789,309)	(236,837)	(2,459,947)	-	(5,486,093)
Net gain (loss) from operations	(2,789,309)	(236,837)	(1,791,533)	-	(4,817,679)
Interest and finance charges	(52,810)	-	(2,068)	-	(54,878)
Gain (loss) on foreign exchange	13,462	-	-	-	13,462
Net income (loss) from continuing operations	(2,828,657)	(236,837)	(1,793,601)	-	(4,859,095)
Net income (loss) from discontinued operations	-	-	-	10,620	10,620
Net income (loss)	(2,828,657)	(236,837)	(1,793,601)	10,620	(4,848,475)
Total assets	853,621	23,417	5,584,291	176,379	6,637,708
Total liabilities	2,210,623	49,629	561,367	208,566	3,030,184

Three Months Ended August 31, 2014	Quantum	Provmark	CSS	Discontinued Operations	Total
	$	$	$	$	$
Revenue	-	-	-	-	-
Operating expenses	(1,271,581)	-	-	-	(1,271,581)
Net loss from operations	(1,271,581)	-	-	-	(1,271,581)
Interest and finance charges	(1,650)	-	-	-	(1,650)
Loss on foreign exchange	(1,598)	-	-	-	(1,598)
Net loss	(1,274,829)	-	-	-	(1,274,829)
Total assets	1,954,497	-	3,894,293	-	5,848,790
Total liabilities	1,831,665	-	-	-	1,831,665

	Six Months Ended August 31, 2015				
	Quantum	Provmark	CSS	Discontinued Operations	Total
	$	$	$	$	$
Net patient revenue	-	-	1,310,441	-	1,310,441
Management fees	-	-	160,929	-	160,929
Operating expenses	(3,428,412)	(280,063)	(3,196,012)	-	(6,904,487)
Net gain (loss) from operations	(3,428,412)	(280,063)	(1,724,642)	-	(5,433,117)
Interest and finance charges	(56,195)	-	(2,069)	-	(58,264)
Gain (loss) on foreign exchange	58,224	-	-	-	58,224
Net income (loss) from continuing operations	(3,426,383)	(280,063)	(1,726,709)	-	(5,433,157)
Net income (loss) from discontinued operations	-	-	-	(282,413)	(282,413)
Net income (loss)	(3,426,383)	(280,063)	(1,726,709)	(282,413)	(5,715,570)
Total assets	853,621	23,417	5,584,291	176,379	6,637,708
Total liabilities	2,210,623	49,629	561,367	208,566	3,030,184

	Six Months Ended August 31, 2014				
	Quantum	Provmark	CSS	Discontinued Operations	Total
	$	$	$	$	$
Revenue	-	-	-	-	-
Operating expenses	(1,550,269)	-	-	-	(1,550,269)
Net loss from operations	(1,550,269)	-	-	-	(1,550,269)
Interest and finance charges	(6,356)	-	-	-	(6,356)
Loss on foreign exchange	(3,543)	-	-	-	(3,543)
Net loss	(1,560,168)	-	-	-	(1,560,168)
Total assets	1,954,497	-	3,894,293	-	5,848,790
Total liabilities	1,831,665	-	-	-	1,831,665

RELATED PARTY TRANSACTIONS

As at August 31, 2015, the Company has accrued management fees payable to corporations controlled by officers and directors of the Company in the amount of $37,097 (August 31, 2014 - $nil). The management fees are included in administrative expenses.

Rent paid to a corporation controlled by a director of the Company during the three and six months ended August 31, 2015 in the amount of $35,054 and $57,361 respectively (three and six months ended August 31, 2014 was $24,334 and $44,231 respectively). The terms of the rental agreement are month to month and pricing is set at arm's length.

MANAGEMENT COMPENSATION

Key management personnel of the Company include the Chief Executive Officer, the President, Chief Financial Officer and all members of the Board of Directors.

Key management personnel compensation:

	Three months ended		Six months ended	
	August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
	$	$	$	$
Management fees paid to corporations controlled by officers	198,855	200,357	291,334	293,495
Management relocation	76,010	-	76,010	-
Salaries and short term benefits	50,602	-	92,023	-
Director fees	20,942	-	42,089	-
Share based compensation	269,396	-	286,451	-

On November 21, 2013 the Board approved an asset management agreement granting Quantum International Asset Management Corp the exclusive authority to manage the undertaking, business, and affairs of the Company. Quantum International Asset Management Corp is 100% owned by two directors and officers of the Company.

Under the management agreement, the external manager is entitled to the following fees for its asset management services:

- base annual management fee calculated and payable on a monthly basis, equal to the greater of \$33,333.33 and 0.1666% of the market capitalization of the Company, which market capitalization shall be determined using a 90-day volume-weighted average market price, calculated on the final day of the month in question;
- annual incentive fee calculated and payable on a monthly basis, equal to 20% of the amount, if any, by which the total distributions made by the Company to shareholders in the year in question exceeds 8% of the level of total equity capital raised (as such concept is defined in the management agreement), averaged across the year in question;
- M&A advisory fee equal to:
    - in the case of an acquisition: (i) 2.0% of the aggregate consideration payable, where the aggregated consideration payable is less than \$50 million; (ii) 1.5% of the aggregate consideration payable, where the aggregated consideration payable is equal to or greater than \$50 million and less than \$100 million; and (iii) 1.0% of the aggregate consideration payable, where the aggregated consideration payable is equal to or greater than \$100 million; and
    - in the case of a disposition of an asset provided that the total proceeds from such disposition exceed the aggregate consideration paid for such asset: (i) 0.75% of the aggregate consideration received by the Company in the event the Company retains a third party financial advisor or investment dealer; and (ii) 1.50% of the aggregate consideration received by the Company in the event the Company does not retain a third party financial advisor or investment dealer.

In the event that the management agreement is terminated, the external manager is entitled to all accrued and unpaid management, incentive and M&A advisory fees, plus a termination fee designed to compensate the external manager for the approximate quantum of fees it would otherwise have been paid during the three years following termination, provided that if the management agreement is terminated within two years of the completion of the reactivation, such three year compensatory period shall be extended to five years.

On October 28, 2015 the Company announced the termination of the asset management agreement.

The Board of Directors has approved an employment arrangement with a senior officer which contained a severance provision which would amount to CAD $50,000 payable upon termination without cause.

SUBSEQUENT EVENTS

Term promissory note

On October 2, 2015 the Company obtained a $300,000 unsecured promissory note from a third party (the “Lender”). The note was issued a discount for consideration of $250,000. The principal is to be repaid on October 31, 2015. If the Company does not prepay the principal amount to the Lender on or before October 31, 2015, the Principal Amount shall be deemed to be $310,000. If the Company repays the principal amount on or before the maturity date, the interest rate shall be 0% per annum. After the maturity date, the principal amount outstanding at any time, and from time to time, and any overdue interest, shall bear interest at 15% per annum, both before and after demand, default, and judgment. Such interest shall be calculated monthly not in advance when not in default and, after default, payable on demand.

Bought deal financing

On October 28, 2015, the Company announced that further to its prospectus offering (the "Offering") of 47,620,000 subscription receipts of the Company ("Subscription Receipts") at a price of CAD $0.42 per Subscription Receipt (the "Offering Price"), which closed on July 28, 2015 (the "Closing Date"), the Company was not able to satisfy the release conditions prior to the release date of October 26, 2015. Accordingly, the Company is obligated to return to the holders of 38,096,000 Subscription Receipts an amount equal to the Offering Price per Subscription Receipt. The Company is currently working with the subscription receipt agent to satisfy this obligation but does not expect to be in position to return an amount equal to the full Offering Price per Subscription Receipt currently outstanding to the holders thereof by November 2, 2015, being the timeframe prescribed by the agreement governing the outstanding Subscription Receipts.

Acquisition of LTACH

On October 28, 2015, the Company announced that as a result of not satisfying the release conditions of the bought deal financing, the Company is not in a position to complete the Proposed LTACH Acquisition.

Termination of asset management agreement

On October 28, 2015 the Company announced that the independent directors of the Company unanimously voted to terminate the asset management agreement with QIAM upon 30 days' notice to the External Manager. The board of directors of the Company has also appointed Manu Sekhri as Chief Executive Officer replacing Grant White in that role. It is expected that Manu Sekhri will enter into an employment agreement with the Company on terms to be agreed.

OUTSTANDING SHARE DATA

	August 31, 2014	**February 28, 2015**	**August 31, 2015**
Common shares outstanding	44,522,733	48,522,733	85,624,233
Warrants outstanding	23,611,494	19,611,494	5,795,994
Share options outstanding	-	500,000	8,425,000
Total	**68,134,227**	**68,634,227**	**99,845,227**

As of July 30, 2015, there are 85,624,233 common shares issued and outstanding.

As at August 31, 2015, the Company had outstanding warrants as follows:

Number of warrants	Exercise price	Exercise price (CAD)	Expiry
1,033,994	$0.32	$0.35	8/28/2016
4,762,000	$0.50	$0.65	7/28/2017

Authorized share capital: An unlimited number of common shares without nominal or par value.

There are 8,425,000 stock options issued and outstanding. 2,758,333 of the stock options outstanding have vested as at August 31, 2015.

The below table summarizes options granted by the Company:

Number Outstanding	Number Vested	Grant Date	Expiry Date	Exercise Price ($CAD)	Fair value at Grant Date	Fair value of Vested Options	Expected Volatility	Expected Life	Expected Divided Yield	Risk Free Interest Rate
500,000	166,667	December 10, 2014	December 10, 2019	$ 0.35	$ 55,147	$ 23,065	44.45%	5	0%	1.37%
200,000	50,000	August 21, 2015	August 21, 2020	$ 0.35	$ 22,687	$ 7,122	71.28%	5	0%	0.65%
7,325,000	2,441,667	August 21, 2015	August 21, 2020	$ 0.42	$ 768,791	$ 256,264	71.28%	5	0%	0.65%
400,000	100,000	August 21, 2015	August 21, 2020	$ 0.35	$ -	$ -	0.00%	0.08	0%	0.00%
8,425,000	2,758,333									

RISK FACTORS

Risks related to the businesses and industries of the Company

General economic conditions

The Company's subsidiaries operate in the U.S. healthcare market. The profitability of the Company is therefore dependent on favorable economic conditions to prevail in the U.S. for its successful operations. Decrease of employment rates in the U.S. could significantly impact potential patient population and thus can negatively impact our business.

Business risks related to operating healthcare facilities

The Company is subject to general business risks inherent in the operation of healthcare facilities, notably changes in payor mix, changes in physician and patient preference of elective surgery, changes in reimbursement by third-party payors, increases in labor costs and other operating costs, competition from or the oversupply of other similar surgical facilities, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditure requirements. Moreover, there is no assurance that the performance expected to be achieved at CSS-Essex will be achieved. Any one of, or a combination of, these factors August adversely affect our business, results of operations and financial condition.

Fluctuations in revenues and payor mix

The Company's business is significantly affected by variability of payments from third-party payors, including private insurers and government healthcare programs. We are dependent on private, and governmental third-party sources of payment for the procedures performed at CSS-Essex. Our success August depend in part on our ability to attract privately insured patients. The Medicare and Medicaid programs are subject to statutory and regulatory changes, possible retroactive and prospective rate adjustments, administrative rulings, freezes and funding reductions, all of which August adversely affect our revenues and results of operations.

Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and is recognized upon performance of the patient service. In determining net patient revenue, management periodically reviews and evaluates historical payment data, payor mix and current economic conditions and adjusts, as required, the estimated collections as a percentage of gross billings in subsequent periods based on final settlements and collections. Management continues to monitor historical collections and market conditions to manage and report the effects of a change in estimates.

Key personnel

Our success depends, in part, on our ability to attract and retain quality physicians. There can be no assurance that we can continue to attract high quality physicians, facility staff and technical staff to our facilities. There can be no assurances that our current physicians will continue to practice at our facilities at their current levels, if at all. An inability to attract and retain physicians August adversely affect our business, results of operations and financial condition.

Our success also depends on the efforts and abilities of our management, as well as our ability to attract additional qualified personnel to manage operations and future growth. Also, at this time, we do not maintain any key employee life insurance policies on any management personnel or partners, but August do so in the future. The loss of a member of management, other key employee, partners or other physicians who use our facilities could have an adverse effect on our business, operating results and financial condition.

Regulatory risks

ASC's operating in the U.S. are subject to numerous federal, state and local laws, rules and regulations. Regulations that August have the most significant effect on our business are: Licensure and Accreditation Healthcare facilities are subject to professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements imposed by Medicare, Medicaid, state licensing authorities, voluntary accrediting organizations and third-party private payors. Receipt and renewal of such licenses, certifications and accreditations are often based on inspections, surveys, audits, investigations or other reviews, some of which August require affirmative compliance actions by the ASCs that could be burdensome and expensive. We believe that the Company's ASC is currently in material compliance with all applicable licensing, certification and accreditation requirements. However, the applicable standards August change in the future. There can be no assurance that the ASC will be able to maintain all necessary licenses or certifications in good standing or that it will not be required to incur substantial costs in doing so. The failure to maintain all necessary licenses, certifications and accreditations in good standing, or the expenditure of substantial funds to maintain them, could have an adverse effect on our business, results of operations and financial condition. Professional nurses and technical staff must also be licensed under state law. There can be no assurance that any particular physician, nurse or technical staff member who has medical staff privileges at the ASC will not have his or her license suspended or revoked by the governing body. If a license is suspended or revoked such physician, nurse or technical staff member August not be able to perform surgical procedures at the Company's ASC, which August have an adverse affect on our operations and business.

i) Anti-Kickback Statute

The United States Medicare/Medicaid Fraud and Abuse Anti-kickback Statute (the "Anti-Kickback Statute") prohibits "knowingly or willfully" paying money or providing remuneration of any sort in exchange for federally funded referrals. We believe that the business operations of the Company are structured to substantially comply with applicable anti-kickback laws.

ii) False Claims Legislation

Under the United States Criminal False Claims Act, individuals or entities that knowingly file false or fraudulent claims that are payable by the Medicare or Medicaid programs are subject to both criminal and civil liability. While the Company's ASC have a compliance program and policies to create a corporate culture of compliance with these laws, failure to comply could result in monetary penalties (up to three times the amount of damages), fines and/or imprisonment, which could have an adverse effect on our business, results of operations and financial condition.

iii) HIPAA

The Company's ASC is subject to the Health Insurance Portability and Accountability Act ("HIPAA"), which mandates industry standards for the exchange of protected health information, including electronic health information. While we believe that we have implemented privacy and security systems to bring us into material compliance with HIPAA, we cannot ensure that the business associates to whom we provide information will comply with HIPAA standards. In addition, because Congress continues to amend HIPAA to keep pace with evolving recordkeeping technologies, we cannot guarantee compliance with future amendments. If we, for whatever reasons, fail to comply with the standards, or any state statute that governs an individual's right to privacy that are not pre-empted by HIPAA, we could be subject to criminal penalties and civil sanctions, which could have an adverse effect on our business, financial condition and results of operations.

iv) Patient Protection and Affordable Care Act

The Company's ASC August be affected by the Patient Protection and Affordable Care Act ("PPACA"), which began taking effect June, 21, 2010. The impact on the Company's ASC remains uncertain. By mandating that residents obtain minimum levels of health insurance coverage, the PPACA has expanded the overall number of insured patients. However, it remains to be seen whether the cost born by employers of providing insurance coverage will result in a shift away from the types of policies that have historically provided the coverage that the Company has relied upon in the past. Further, the impact that value-based purchasing initiatives could have on the Company's revenues remains unclear. The Company continues to review the potential impact of PPACA's provisions on its business as the out of-network reimbursement under the policies issued by the state exchange might be substantially lower than those by the employer-sponsored polices.

Acquisition strategy and concentration risk

The Company currently operates a single ASC, CSS-Essex. Therefore, all of the risks are currently concentrated in a single facility. In order to diversify the exposure to the risks, the Company will have to execute on its strategy of growth through acquisition in various geographic markets in the U.S.

Future growth depends on the ability to locate and secure financially attractive targets that meet the acquisition strategy of the Company, as well as the ability of accessing funds through capital markets to finance the transaction. Failure to identify suitable acquisition targets and negotiate attractive consideration and acceptable financing terms my adversely affect the Company's performance.

Professional liability claims

As a healthcare provider, CSS-Essex is subject to professional liability claims both directly and vicariously through the malpractice of members of our medical staff. As a healthcare facility, CSS-Essex has direct responsibility and legal liability for the standard of care provided in its facility by its staff. The ASC has legal responsibility for the physical environment and appropriate operation of equipment used during surgical procedures. In addition, CSS-Essex has vicarious liability for the negligence of its credentialed medical staff under circumstances where it either knew or should have known of a problem leading to a patient injury. Although the ASC neither controls the practice of medicine by physicians nor have responsibility for compliance with certain regulatory and other requirements directly applicable to physicians and their services, the Company August still become subject to medical malpractice claims under various legal theories. Claims of this nature, if successful, could result in damage awards to the claimants in excess of the limits of available insurance coverage.