QUANTUM INTERNATIONAL INCOME CORP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MAY 31, 2016

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 months ended May 31, 2016.

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 2016 audited consolidated financial statements and the notes thereto, and the 2016 MD&A filed with Canadian regulatory agencies. The documents are available at www.sedar.com.

This MD&A was prepared effective July 29, 2016.

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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", "may", "could", "believes", "estimates", "intends", "plans", "forecast", "projection" and "outlook") are not historical facts and may 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 may 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 may 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") intends to seek opportunities to acquire and grow businesses in order to generate stable distributions for its shareholders, along with capital appreciation. The Company will seek to acquire operating businesses with a proven track record, an opportunity for growth and whose management wishes to continue to operate the business going forward. The Company's investment approach will be to grow through the acquisition of "platform" businesses that are consistent with its business strategy and acquisition criteria and then to continue to build revenues and earnings within these businesses. Potential acquisition targets may be private or public companies in a variety of industries, including US Healthcare, thereby allowing for diversification. Acquisition of all or a majority of the ownership of each such business is preferred. Value will be created by seeking out high growth, high margin opportunities where the acquired businesses can maintain and develop the deep knowledge, expertise and understanding of their customers' needs required to deliver superior service and command higher pricing and margins than the competition.

RECENT DEVELOPMENTS

Appointment of new director

On March 16, 2016, Mr. Peter Shippen joined the Board of Directors of the Company.

Assignment of option

On March 16, 2016, the Board of Directors approved a transaction concerning the Company's irrevocable option to acquire, for no additional consideration, 9,000,000 common shares of the Company from affiliates of DGAT Partners, LLC. In order to provide meaningful incentives to senior management, the Board of Directors has approved the assignment by the Company of the Anesthesia Option to Mr. Sekhri. As a condition to the assignment, Mr. Sekhri has agreed to pay to the Company a price of $0.05 CDN per common share acquired by Mr. Sekhri upon any exercise of the Anesthesia Option. The assignment of the Anesthesia Option has been approved by a majority of shareholders of the Company (other than Mr. Sekhri) by way of written consent.

On April 18, 2016, Toronto Stock Exchange approved the assignment by the Company to an entity controlled by Mr. Sekhri of an outstanding option to acquire 9,000,000 common shares of the Company.

Note Facility Drawdown

On March 16, 2016, the Company's wholly-owned subsidiary Quantum US Healthcare Corp., completed a drawdown under its previously announced credit facility in the principal amount of $110,000 CDN.

In connection with this drawdown, the Borrower paid finders and agents a cash commission equal to $11,000 CDN, of which $8,250 CDN was paid in common shares of the Company valued at $0.05 CDN per Common Share, as well as broker warrants to acquire 220,000 common shares of the Company at a price of $0.05 CDN per common share at any time during the 12 months following the date of issuance of such broker warrants.

On April 25, 2016, the Company's wholly-owned subsidiary Quantum US Healthcare Corp., completed a drawdown under its previously announced credit facility in the principal amount of $110,000 CDN.

In connection with this drawdown, the Borrower expects to pay finders and agents a cash commission equal to $11,000 CDN, of which $8,250 CDN is expected to be paid in common shares of the Company valued at $0.05 CDN per Common Share, as well as broker warrants to acquire 220,000 common shares of the Company at a price of $0.05 CDN per common share at any time during the 12 months following the date of issuance of such broker warrants.

On May 17, 2016, the Company's wholly-owned subsidiary Quantum US Healthcare Corp., completed a drawdown under its previously announced credit facility in the principal amount of $110,000 CDN.

In connection with this drawdown, the Borrower expects to pay finders and agents a cash commission equal to $11,000 CDN, of which $8,250 CDN is expected to be paid in common shares of the Company valued at $0.05 CDN per Common Share, as well as broker warrants to acquire 220,000 common shares of the Company at a price of $0.05 CDN per common share at any time during the 12 months following the date of issuance of such broker warrants.

Resignation of a director

On April 1, 2016, Douglas Stuve resigned from the Board of Directors of the Company.

Consulting Agreement

On April 1, 2016, the Company entered into a new consulting agreement with an entity controlled by Mr. Sekhri. Prior thereto, Mr. Sekhri had been working for the company on an "at will" basis and without a contractual relationship. The consulting agreement provides for the continuation of compensation currently being paid to Mr. Sekhri, with the potential for an increase thereto as well as certain incentive payments in the event Mr. Sekhri is able to grow the business of the Company significantly.

Potential Acquisition

On April 26, 2016, the Company entered into a letter agreement in which the Company, or its designated affiliate, will acquire a controlling interest in the business of Lucky Bucks Inc. ("LBI"), a highly profitable digital skill-based gaming terminal operator based in and incorporated under the laws of the U.S. State of Georgia. LBI assembles, distributes, owns and operates over 650 skill-based digital gaming terminals in over 130 locations throughout Georgia. LBI's terminals are fully licensed and governed by the Georgia State Lottery and offer players a variety of skill-based coin-operated amusement machines.

The purchase price for the Acquisition is expected to be US$13.5 million, comprised of US$10.0 million payable in cash at closing of the Acquisition, US$3.0 million payable in common shares of the Company, to be valued based on the volume weighted average trading price of the Company's common shares on the TSX Venture Exchange during the 20-day period prior to the closing of the Acquisition, and US$0.5 million of deferred consideration, payable in cash at the end of the first year following the closing of the Acquisition.

FINANCIAL REVIEW

INCOME STATEMENT

	May 31, 2016 $	May 31, 2015 $
Revenue		
Patient revenue	383,714	802,955
Net licensing revenue	2,208	(22,337)
	385,922	780,618
Operating and other expenses		
General and administrative expenses	(1,252,255)	(1,688,490)
Finance income	-	329
Finance costs	(28,511)	(3,715)
Gain (loss) on foreign exchange	(59,792)	44,163
	(1,340,558)	(1,647,713)
LOSS BEFORE TAXES	(954,636)	(867,095)
Income taxes		
Current	-	-
NET LOSS	(954,636)	(867,095)
Attributable to:		
Owners	(945,331)	(846,655)
Non-controlling interest	(9,305)	(20,440)
	(954,636)	(867,095)
Other comprehensive income (loss)		
Foreign currency translation reserve	3,585	75
NET LOSS AND COMPREHENSIVE LOSS	(951,051)	(867,020)
Attributable to:		
Owners	(942,941)	(846,605)
Non-controlling interest	(8,110)	(20,415)
	(951,051)	(867,020)
Earnings (loss) per share attributable to owners		
Basic and diluted	(0.01)	(0.01)
Weighted average common shares issued and outstanding	86,705,190	65,579,984

Revenue

Revenue was $385,922 for the three month period ended May 31, 2016 and $780,618 for the three month period ended May 31, 2015. Revenue generated in the current period was primarily attributable entirely to CSS. Surgical procedures commenced at CSS-Essex in December 2014.

General & administrative expenses

	May 31, 2016 $	May 31, 2015 $
Professional and advisory fees	255,200	373,304
Management fees	32,829	152,479
Regulatory and filing fees	23,056	31,815
Salaries and benefits	211,514	341,175
Depreciation and amortization	121,924	118,386
General administrative expenses	368,357	388,289
Medical supplies expensed	58,147	83,200
Impairment of assets	-	182,787
Stock based compensation	181,228	17,055
	1,252,255	1,688,490

The decrease in general and administrative expense compared to the three months ended May 31, 2015 is primarily related to no impairment charges, decrease in corporate overhead expenses and decrease in legal expenses relating to acquisitions.

Finance income and finance costs

Finance income includes $0 interest earned on cash balances during the three months ended May 31, 2016 and $329 for the three months ended May 31, 2015

The Company incurred finance costs of $28,511 for the three months ended May 31, 2016 and $3,715 for the three months ended May 31, 2015.

Net Loss

As a result of the foregoing factors, the net loss for the three months ended May 31, 2016 was $964,636 and $867,095 for the three months ended May 31, 2015.

$9,305 of net loss for the three months ended May 31, 2016 and $20,440 of net loss for the three months ended May 31, 2015 is attributable to non-controlling interest.

Other Comprehensive Income

Due to the change in presentation currency, other comprehensive income for the three months ended May 31, 2016 and May 31, 2015 was $3,585 and $75, respectively. Other comprehensive income that is attributable to non-controlling interest for the three months ended May 31, 2015 and May 31, 2015 was $1,195 and $25, respectively.

Net Comprehensive Loss

Net comprehensive loss for the three ended May 31, 2016 and May 31, 2015 was $951,051 and $867,020, respectively. Net comprehensive loss that is attributable to non-controlling interest for the three months ended May 31, 2015 and May 31, 2015 was $8,110 and $20,415, respectively.

CASH FLOW

CASH FLOW FROM (USED IN)	Three months ended May 31, 2016 $	May 31, 2015 $
Operating activities	(347,706)	(1,080,765)
Investing activities	-	(1,080,000)
Financing activities	243,308	2,436,806
Increase (decrease) in cash and cash equivalents	(104,398)	276,041

Cash flows used in operating activities during the three months ended May 31, 2016 were primarily for payment of operating expenses and corporate expenses.

Cash flows from financing activities includes proceeds from loan payable of $258,494.

Net cash (spent) during the three months ended May 31, 2016 was ($104,398) with foreign exchange impact on cash of $3,585 as compared to cash generated of $276,041 and foreign exchange impact on cash of $101 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 US healthcare companies focused on delivering integrated health solutions, as well as private or public companies in a variety of other industries, thereby allowing for diversification.

Working capital

Working capital as at May 31, 2016 was negative $5,010,803, compared to negative working capital of $4,412,393 as at February 29, 2016. The decrease in working capital is primarily due to drawdowns of the credit facility. 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

The Company paid a finder's fee in relation to the drawdowns on of the credit facility agreement on March 16, 2016, April 25, 2016 and May 17, 2016. The finder's fee included cash commission of $6,298, 495,000 common shares valued at $8,930 and 660,000 warrants valued at $6,600. The fair value of the warrants was charged to contributed surplus.

On March 16, 2016, the Company entered into an agreement with Merrill Corporation pursuant to which Merrill has agreed to accept, in full satisfaction of an outstanding liability of the Company, an issuance of 123,446 common shares of the Company, representing an implied price of $0.05 CDN per common share.

On April 1, 2016, the Company entered into separate shares for debt arrangements with Roy L. Booth, former Chief Financial Officer of the Company. Mr. Booth agreed to accept, in full satisfaction of an outstanding liability of the Company, an issuance of 164,000 common shares of the Company, representing an implied price of $0.05 CDN per common share.

On April 1, 2016, the Company entered into separate shares for debt arrangements with Richardson GMP Limited. Richardson GMP Limited agreed to accept, in full satisfaction of an outstanding liability of the Company, an issuance of 781,621 common shares of the Company, representing an implied price of $0.05 CDN per common share.

Capital management

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended May 31, 2016.

SELECT QUARTERLY INFORMATION (UNAUDITED)

	Quarter Ended May 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 $	Quarter Ended November 30, 2015 $	Quarter Ended February 29, 2016 $	Quarter Ended May 31, 2016 $
Net loss before special items	(285,338)	(1,274,829)	(1,088,550)	(1,165,330)	(867,095)	(4,859,095)	(4,618,246)	(1,399,577)	(954,636)
Basic and diluted loss per share	(0.01)	(0.05)	(0.02)	(0.01)	(0.01)	(0.06)	(0.06)	(0.02)	(0.01)
Total assets	734,201	6,867,454	5,591,316	4,763,059	6,315,449	6,637,708	4,767,883	3,440,625	3,124,530
Total long term liabilities	Nil	Nil	Nil	$42,701	$37,481	$30,817	$28,954	$23,061	$17,461
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

SEGMENTED INFORMATION

Management has identified three 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:
- Healthcare operation in the USA, operated through CSS (“CSS”)
- Multiple Media Entertainment Inc. (“MME”)
- Other, including head office expenses and office of the CEO (“Quantum”)

Assets of CSS are held in the USA, all other assets are held in Canada.

					May 31, 2015
	Quantum	Provmark	CSS	MME	Total
	$	$	$	$	$
Patient revenue	-	-	802,956	-	802,956
Net licensing revenue	-	-	-	(22,337)	(22,337)
Operating expenses	(639,145)	(43,226)	(736,024)	(87,308)	(1,505,703)
Impairment of MME	-	-	-	(182,787)	(182,787)
Net gain (loss) from operations	(639,145)	(43,226)	66,931	(292,432)	(907,871)
Interest and finance charges	(3,386)	-	-	-	(3,386)
Gain (loss) on foreign exchange	44,763	-	-	(601)	44,162
Net income (loss)	(597,766)	(43,226)	66,931	(293,033)	(867,095)
Total assets	1,635,142	-	4,224,970	455,337	6,315,449
Total liabilities	2,335,036	40,728	380,758	308,037	3,064,559

					May 31, 2016
	Quantum	**CSS**	**MME**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**
Net patient revenue	-	383,714	-	-	383,714
Net licensing revenue	-	-	2,208	-	2,208
Management fees	-	-	-	-	-
Operating expenses	(451,848)	(770,283)	(30,124)	-	(1,252,255)
Net gain (loss) from operations	(451,848)	(386,569)	(27,916)	-	(866,333)
Interest and finance charges	(28,511)	-	-	-	(28,511)
Gain (loss) on foreign exchange	(59,792)	-	-	-	(59,792)
Net loss from continuing operations	(540,151)	(386,569)	(27,916)	-	(954,636)
Total assets	167,969	2,856,682	97,652	2,227	3,124,530
Total liabilities	4,782,261	645,527	221,282	256,170	5,905,240

RELATED PARTY TRANSACTIONS

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:

	May 31, 2016	**May 31, 2015**
Management fees paid to corporations controlled by officers	(27,171)	92,479
Salaries and short term benefits	-	41,420
Director fees	6,000	21,147
Share based compensation	181,228	17,055
Consulting fees	53,151	-

Included in accounts payable and other liabilities is $46,571 (February 28, 2015 - $nil) due to related parties as of May 31, 2016 for management fees paid to corporations controlled by officers and directors fees.

During the period ended May 31, 2016, the Company paid consulting fees of $44,163 (May 31, 2015 - $nil) and reimbursed Company expenses to a corporation controlled by a director and officer of the Company.

These services were incurred in the normal course of operations. All services were made on terms equivalent to those that prevail with arm's length transactions. As at May 31, 2016, Ascendant Group Holdings Inc. was owed $17,067 (February 28, 2016 – $59,439).

During the period ended May 31, 2016, the Company paid consulting fees of $8,989 (May 31, 2015 – $nil) to an accounting firm of which the CFO is the managing partner. These services were incurred in the normal course of operations for general accounting and financial reporting matters. All services were made on terms equivalent to those that prevail with arm's length transactions. As at May 31, 2016, Forbes Andersen LLP was owed $15,396 (February 28, 2016 – $19,712).

During the period ended May 31, 2016, the Company paid rent of $33,683 (May 31, 2015 – 22,307) to a corporation controlled by a director and officer of the Company.

During the period ended May 31, 2016, the Company settled a debt owing to the prior CEO for $7,484. The original debt was $34,655 and the gain on settling the debt is recorded in management fees paid to corporations controlled by officers of the Company.

During the period ended May 31, 2016, the Company assigned the option to acquire 9,000,000 common shares of the Company, to an entity controlled by a director and officer of the Company. The option is valued at the estimated fair value of $135,000 and is recorded under share based compensation.

SUBSEQUENT EVENTS

Note Facility Drawdown

On June 15, 2016, the Company's wholly-owned subsidiary Quantum US Healthcare Corp., completed a drawdown under its previously announced credit facility in the principal amount of $110,000 CDN.

In connection with this drawdown, the Borrower expects to pay finders and agency cash commission equal to 11,000 CDN, of which $8,250 CDN is expected to be paid in common shares of the Company value at $0.05 CDN per Common Share, as well as broker warrants to acquire 220,000 common shares of the Company at a price of $0.05 CDN per common share at any time during the 12 months following the date of issuance of such broker warrants.
On July 15, 2016, the Company's wholly-owned subsidiary Quantum US Healthcare Corp., completed a drawdown under its previously announced credit facility in the principal amount of $110,000 CDN.

In connection with this drawdown, the Borrower expects to pay finders and agency cash commission equal to 11,000 CDN, of which $8,250 CDN is expected to be paid in common shares of the Company value at $0.05 CDN per Common Share, as well as broker warrants to acquire 220,000 common shares of the Company at a price of $0.05 CDN per common share at any time during the 12 months following the date of issuance of such broker warrants.

Amendments to the exercise price of certain outstanding stock options

On June 15, 2016, the Company announced that it completed amendments to the exercise price of 3,400,000 stock options granted to Manu Sekhri, CEO from $0.42 CDN per common share to $0.05 CDN per common share.

Cease trade order

On July 5, 2016 trading in the Company's shares was halted by the TSX Venture Exchange pursuant to a Cease Trade Order issued by the Ontario Securities Commission. The cease trade order was issued due to the non-filing of the Company's audited annual financial statements and other related documents on June 27, 2016. Those required documents were filed by the Company on July 15, 2016.

On July 21, 2016, the Ontario Securities Commission revoked this cease trade order.

OUTSTANDING SHARE DATA

	February 28, 2015	February 29, 2016	July 29, 2016
Common shares outstanding	48,522,733	86,036,733	87,930,800
Warrants outstanding	19,611,494	6,345,994	7,445,994
Share options outstanding	500,000	8,025,000	4,625,000
Total	68,634,227	100,407,727	99,616,794

On March 16, 2016, the Company repurchased 3,400,000 of options from Grant White (former CEO).

The Company issued 220,000 broker warrants for each draw down on the credit facility. The total broker warrants related to this is 1,100,000. These warrants expire 18 months after the grant date.

There are warrants to purchase common shares as at July 29, 2016 are as follows:

Number of warrants	Exercise price (CAD)		Expiry
1,033,994	$	0.35	8/28/2016
4,762,000	$	0.65	7/28/2017
550,000	$	0.05	8/18/2017
220,000	$	0.05	9/14/2017
220,000	$	0.05	10/25/2017
220,000	$	0.05	11/17/2017
220,000	$	0.05	12/15/2017
220,000	$	0.05	1/15/2018

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

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 and Canadian Media industry. The profitability of the Company is therefore dependent on favorable economic conditions to prevail in both countries 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 may 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 may 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 may 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 may 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 may 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 may 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 may 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 may 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 may not be able to perform surgical procedures at the Company's ASC, which may have an adverse effect on our operations and business.

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.

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.

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.

Patient Protection and Affordable Care Act

The Company’s ASC may 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 may 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.