Providing the Facilities . . . for Exceptional Healthcare

2015 ANNUAL REPORT

ABOUT MFC

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Corporate Profile

Medical Facilities Corporation owns majority interests in four specialty surgical hospitals located in Arkansas, Oklahoma and South Dakota, and an ambulatory surgery center located in California. Our facilities, which are owned in partnership with physicians, offer a range of surgical, imaging, diagnostic, pain management and other ancillary services such as urgent and primary care and occupational health. Revenue is derived from fees charged for the usage of our facilities.

Medical Facilities is publicly traded on the Toronto Stock Exchange under the symbol “DR”. In 2015, the Company paid a monthly dividend of $0.09375 per common share. Since April 2004, the Company has paid over 140 consecutive dividends. Medical Facilities has a Dividend Reinvestment and Share Purchase Plan for shareholders resident in Canada.

MFC at a Glance

Our facilities provide a competitive alternative to larger, traditionally-run hospitals. We offer an unsurpassed standard of care to our patients, efficiently and cost-effectively. Our streamlined processes minimize disruptions to our patients while enhancing the professional and personal lives of our physician partners. Physicians are attracted to our facilities which are managed with a physician focus.

Acquisitions and Opportunities

In January 2016, Medical Facilities added an accretive asset to its healthcare focused portfolio which complements our strategic direction and vision. This diversified healthcare service company provides third-party business solutions to healthcare entities such as physician practices, facilities, and insurance companies.

With more than 6000 ambulatory surgery centers and over 200 specialty hospitals in the United States, there are attractive opportunities for potential acquisitions.

2015 FINANCIAL HIGHLIGHTS

2015 generated year-over-year revenue growth of 3.8% and an increase in income from operations of 12.0%

Repurchased 300,600 common shares at an average price of C$15.05

Since April 2004, over 140 consecutive monthly dividends paid to our shareholders

Revenue	
2015	$308.8M
2014[1]	$297.4M

Cash Available for Distribution[2]	
2015	C$45.9M
2014	C$41.4M

Income from Operations	
2015	$74.7M
2014[1]	$66.7M

Payout Ratio[2]	
2015	76.7%
2014	85.2%

Operating Margin	
2015	24.2%
2014[1]	22.4%

Strategies for Growth

- Acquisition of specialty surgical hospitals and ambulatory surgery centers
- Adding new service lines and increasing the complement of physicians with medical staff privileges at our facilities
- Creating purchasing efficiencies and synergies by leveraging our aggregate purchasing power
- Acquisition or development of healthcare related ventures that are accretive and enhance the value proposition for our physician partners

All figures in US$ unless otherwise stated.
1 Figures have been restated for the classification of Dakota Plains Surgical Center, LLP as discontinued operation. Refer to Note 4 of Medical Facilities' 2015 audited consolidated financial statements.
2 Non-IFRS Financial Measures. Refer to Medical Facilities' 2015 Management's Discussion and Analysis.

SEYMOUR TEMKIN
Chair of the Board & Interim CEO

Providing the Facilities . . . for a Solid Company

Our facilities are highly ranked, state-of-the-art facilities for scheduled short stay and outpatient surgeries and provide a foundation for our plans to capitalize on further opportunities in this fast-growing industry.

LETTER FROM THE CEO

Celebrating 12 years as a publicly listed company on the Toronto Stock Exchange, Medical Facilities Corporation ("MFC") is pleased to report revenue of $308.8 million and income from operations of $74.7 million, representing a year-to-year change of 3.8% and 12.0%, respectively.

The Future is Bright: a Thriving Healthcare Industry

MFC is positioned to capitalize on the robust demand for medical services. The U.S. $2.2 trillion healthcare market is projected to double in size over the next decade. As well, the healthcare sector is relatively resistant to economic fluctuations. Healthcare is one of the fastest growing sectors in the U.S. economy.

Capitalizing on Short Stay and Outpatient Surgeries

The growth in short stay and outpatient procedures represents an increasing trend in healthcare. These procedures have grown at a compound annual rate of more than 8.5% since 1981. The popularity and efficiencies of short stay and outpatient surgeries attract both physicians and patients to MFC facilities. New and more complex surgical procedures are expected to increase growth, revenues, and efficiencies.

Industry Leading Standard of Care and Efficiencies

MFC combines the highest standard of care with a fine hospitality environment. We provide quality services that address every aspect of our patients' stays. From spacious, state-of-the-art operating facilities to some of the best nurse patient ratios in the industry, our comfortable facilities are welcoming to family members and visitors.

Standard of care and efficiency are central to every aspect of our business. Our facilities specialize in a specific range of inpatient and outpatient surgeries. MFC's facilities compare favourably with the larger, traditional hospitals, which often exhibit costly and frustrating inflexibility for physicians and their patients.

High standards in our facilities are corroborated by rigorous and neutral third-party evaluations that rank us against the best hospitals in the nation. The data consistently shows that our facilities are equivalent to, or surpass the highest customer satisfaction regarding our medical teams, facilities, services, and communications with our patients.

Strengthening Local Communities

MFC's facilities are distinguished in each of their respective marketplaces. They provide services in smaller communities that boost the local economy, while serving as medical destinations which draw visitors from neighboring towns, cities and states.

The MFC Model: Physician Investors

To ensure an alignment of management and investors, a majority of MFC physicians are significant investors in their local facility. Besides retaining a financial interest, the physicians are actively involved in managing our facilities, in contrast with the model used in most large hospital systems in the United States. The MFC physicians' expertise in their respective fields of medicine is key to attracting the best medical teams, as well as leading technologies, in a context of quality care, efficiencies and responsiveness.

Stable Income Distributions

MFC pays out a majority of its free cash flows from operations in the form of a monthly dividend to common shareholders. To build value throughout our facilities and our organization, MFC keeps a keen eye on business metrics. We monitor our operations and procedures to enhance our standard of care, and to ensure efficiencies that reduce waiting times, minimize costs, and improve outcomes. This disciplined focus builds value for our shareholders in the context of stable cash flows. Our overall strategy is to return a stable and secure income for our shareholders.

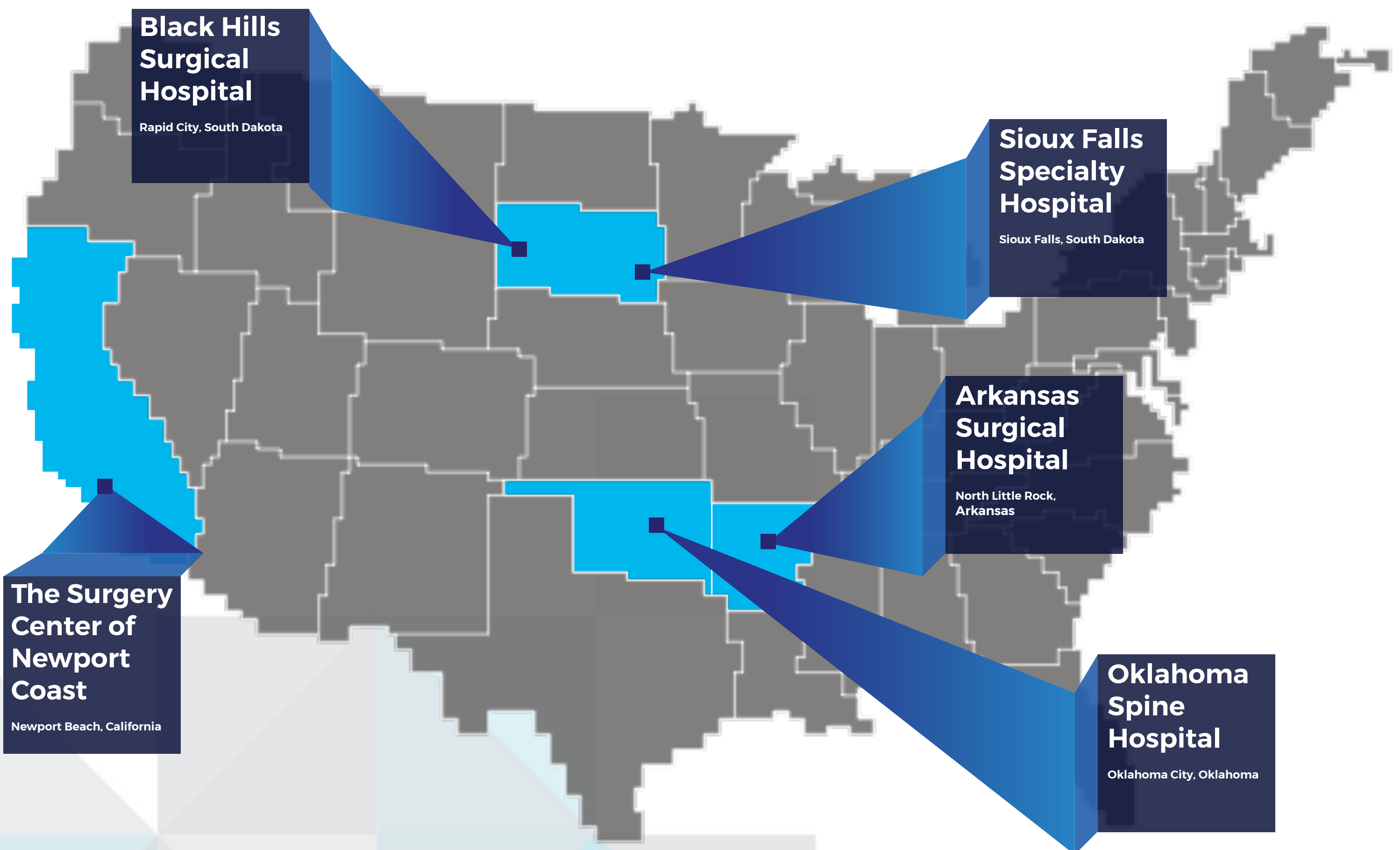
With a proven track record, MFC has a promising future in a growing industry. By improving its standards of care, efficiencies and services, increasing profitability, and using a disciplined acquisition strategy, the future for MFC and its shareholders is bright.

Thank you for your continued confidence and support of Medical Facilities Corporation.

SEYMOUR TEMKIN
Chair of the Board & Interim CEO

Our Facilities

- Black Hills Surgical Hospital
- Sioux Falls Specialty Hospital
- Oklahoma Spine Hospital
- Arkansas Surgical Hospital
- The Surgery Center of Newport Coast



BLACK HILLS
SURGICAL HOSPITAL
Proudly owned by Physicians

Oklahoma Spine Hospital
SURGERY • PAIN MANAGEMENT
A PHYSICIAN OWNED HOSPITAL

NEWPORT CENTER
SURGICAL

SFSH
SIOUX FALLS
SPECIALTY HOSPITAL
Innovative and Personalized Care

ARKANSAS
SURGICAL HOSPITAL
PHYSICIAN OWNED

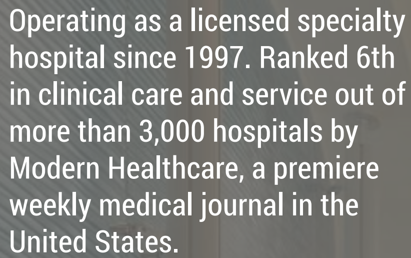
Providing the Facilities . . . for Exceptional Healthcare

95%
of patients would recommend our hospital. Awarded CMS 5 star rating

One of the top 100 spine hospitals in the U.S. (www.healthgrades.com)

Black Hills Surgical Hospital

Rapid City, South Dakota



Operating as a licensed specialty hospital since 1997. Ranked 6th in clinical care and service out of more than 3,000 hospitals by Modern Healthcare, a premiere weekly medical journal in the United States.

BHSH is a multi-specialty facility with a large component of orthopedic and neurosurgical procedures. The hospital features approximately 75,000 square feet with 11 operating rooms, 26 private recovery suites, 97 physicians with medical staff privileges and a clinical staff of 283. BHSH utilizes the 3T MRI, the world's most powerful imaging tool. BHSH offers one nurse for every 3 patients, a hotel-like ambiance, and quality food.

The health services industry in Sioux Falls is one of the city's primary industries

Sioux Falls Specialty Hospital

Sioux Falls, South Dakota

Originally built in 1985, the 76,000 square feet hospital features 13 operating rooms, 35 overnight rooms and a clinical staff of 187. SFSH has 224 physicians with medical staff privileges. A recovery care department addresses patient's postoperative needs. Primary care and occupational health clinics are also available.

A full complement of radiology and diagnostic services, including 3T and open upright MRI's

91%

of patients would recommend our hospital. Awarded CMS 5 star rating

To assure recovery, SFSH has a high nurse to patient ratio

88%

of patients would recommend our hospital. Awarded CMS 5 star rating

Number one rank of all hospitals in Oklahoma for spinal surgery (www.carechex.com)

Oklahoma Spine Hospital

Oklahoma City, Oklahoma

On-site, the OSH features pharmacy, laboratory and dietary services. As part of its comprehensive care program, OSH features a 7,500 square feet, off-site, physical therapy service owned and operated by the hospital.

In a 61,000 square foot facility, OSH is a licensed specialty hospital with a focus on a limited number of clinical and surgical specialties, including neurosurgery and pain management. OSH features 7 large operating rooms, 25 private patient beds and a clinical staff of 200. 96 physicians have medical staff privileges.

Arkansas Surgical Hospital

North Little Rock, Arkansas

ASH opened in 2005 as a physician-owned specialty hospital. The hospital is at the forefront of orthopedic, spine and reconstructive surgeries. Expertise is provided in breast oncology and pain management procedures. X-ray, CT, MRI and myelography services are also provided. The hospital features 11 operating rooms, 41 overnight rooms and a clinical staff of 208. There are currently 209 physicians with medical staff privileges at ASH.

Recovery is facilitated with quality, caring Registered Nurses

91%

of patients would recommend our hospital. Awarded CMS 5 star rating

ASH is a leading facility for orthopedic, spine and reconstructive surgeries, as well as breast oncology.

SCNC is an accredited Medicare Deemed Multi-Specialty Facility by the Accreditation Association for Ambulatory Health Care.

The Surgery Center of Newport Coast

Newport Beach, California

Since 2004, this 7,000 square foot facility specializes in orthopedics, pain management, general surgery, gastroenterology, gynecology, and cosmetic surgery. Focusing on same-day surgeries, the facility has two large operating rooms and a special procedure room, as well as private and comfortable pre-operative and post-operative recovery rooms.

Our medical director consults with our physicians and director of nursing to ensure quality care

SCNC is the premiere hip arthroscopy center in Orange County, CA. Patients from all over the United States visit Dr. Warren Kramer and his team for hip arthroscopy.

PATIENT CARE

Providing the Facilities . . . for Optimal Patient Outcomes

Surgeons, registered nurses and medical support staff at our facilities help ensure that their patients are provided quality care during their operation, post-operation, and rehabilitation phases.

OPERATION

The physicians and staff at our facilities provide medical and surgical expertise focused on a limited number of specialized procedures. To facilitate quality care, our facilities utilize state-of-the-art medical equipment. Positive outcomes are enhanced with high nurse to patient coverage ratios. Our expertise provides faster turnaround times in operating rooms, and in post-operative care. Surveys show that our facilities have low infection rates and post-operative complications.

POST-OPERATION

Our facilities are designed to ensure a pleasant stay, for patients and families alike. Patients enjoy our high standards, equivalent to a fine hospitality service. Facilities include private suites, coupled with guest rooms for family members and caregivers. Amenities may include flowers, robes, complimentary bath products and toiletries, flat screen TVs with DVD players, newspapers and magazines, iPads and complimentary Internet. Our facilities receive excellent feedback about their amenities and tasty and nutritious food.

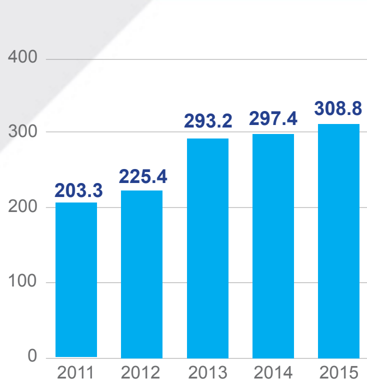
REHABILITATION

Our facilities provide services and procedures to help patients return to optimal functionality in a timely manner. Services include customized rehabilitation programs and on-going monitoring. Board-certified pain and rehabilitation specialists, multispecialty therapists, and professional support staff incorporate innovative products and best-practice procedures.

A Proven Business Model

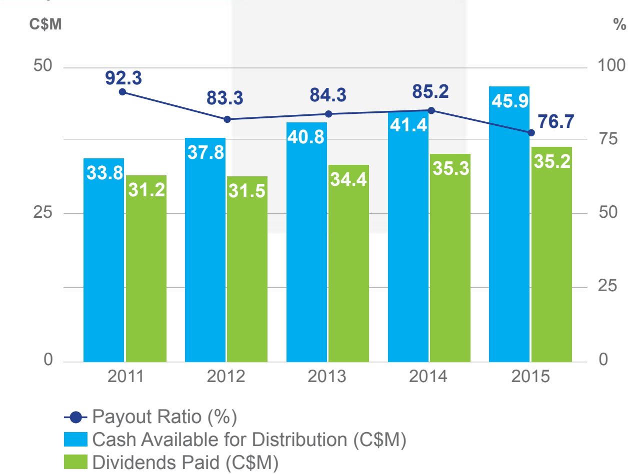
Increasing revenue, income from operations, and generation of free cash flow demonstrate the efficacy of Medical Facilities' business model.

Revenue[1] (US$M)



Income from Operations[1] and Operating Margin

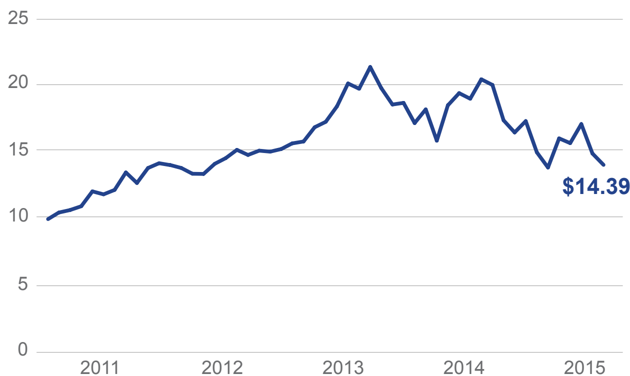
Cash Available for Distribution[2], Dividends Paid, Payout Ratio[2]



All figures in US$ unless otherwise stated.
[1]Figures have been restated for the classification of Dakota Plains Surgical Center, LLP as discontinued operation. Refer to Note 4 of Medical Facilities' 2015 audited consolidated financial statements.

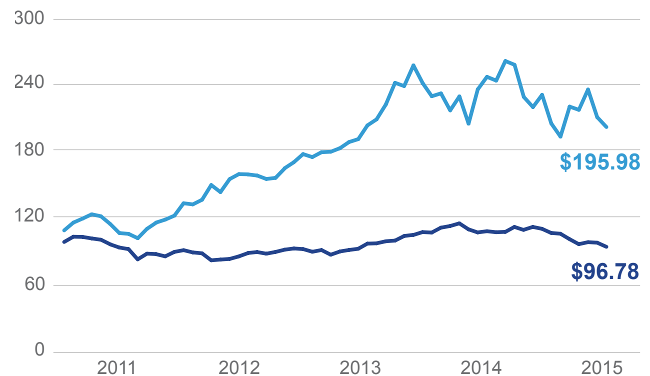
[2]Non-IFRS Financial Measures. Refer to Medical Facilities' 2015 Management's Discussion and Analysis.

Share Price Performance* (C$)



* Share price as at market close.

Total Return* (C$)



Medical Facilties
S&P/TSX Composite Index

* Assumes C$100 investment with dividends reinvested in Medical Facilities' common shares.

OUR MARKETS

Providing the Facilities . . . for Exceptional Growth Potential

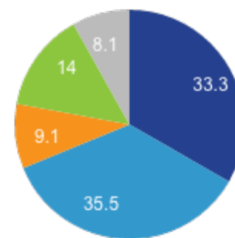
2015 PAYOR MIX

Our facilities operate in markets where Blue Cross/Blue Shield and affiliates comprise the largest portions of their payor mix.

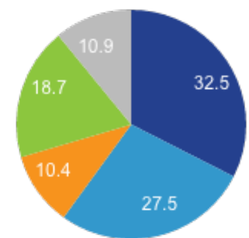
Our facilities actively negotiate with payors for improved re-imbursement rates, contract terms and access to large patient populations covered by payor contracts.

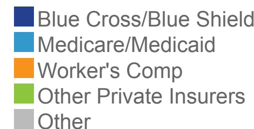
Emphasizing cost advantages, efficiencies, and high standard of care, our facilities market their hospitals directly to payors.

Gross Billings (%)



Net Revenue (%)





HEALTHCARE REFORM

Medical Facilities' track record of efficiently delivering the highest standard of care to our patients is being rewarded under the *Patient Protection and Affordable Care Act*. Payors demand efficient, cost-effective services, with excellent outcomes, which align with the strategic focus and best practices of Medical Facilities. Our strategic, disciplined and efficient approach positions us to be attractively compensated by payors and to address the future challenges of healthcare reform. With our excellent performance on the 20 factors used by Medicare to evaluate hospital inpatient stays, our facilities qualified for incentive payments.

HEALTH EXPENSES BY SOURCE

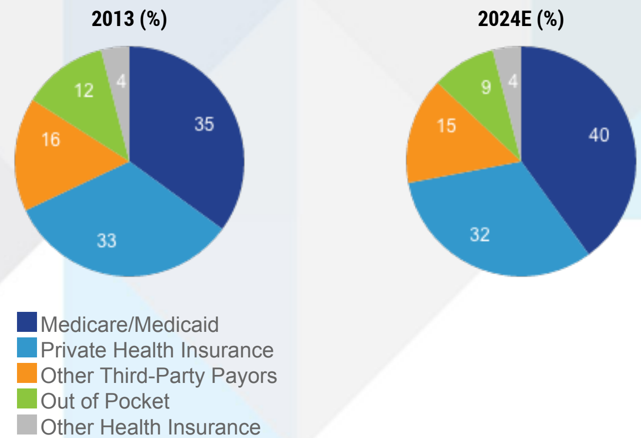
Medical Facilities has a track record of high levels of patient satisfaction while generating profit within Medicare rates.

Total health spending growth in the United States is expected to average 5.8% over 2014-2024.[1]

The insured rate is expected to rise from 86.0% to 92.4% as the number of uninsured is projected to fall by 18 million over the next 11 years.[1]

The enrollment of baby boomers, coupled with reform mandated changes, are projected to increase Medicare and Medicaid expenditures from 35% in 2012 to 40% by 2023.

1 Source: Centers for Medicare & Medicaid Services, 2014-2024 Projections of National Health Expenditures Data Release, Press Release of July 28, 2015.



Source: Center for Medicare & Medicaid Services, National Health Expenditures, December 2015.

REGIONAL TABLE

Strategically located in smaller regional metropolitan areas, our Facilities are the preferred choice of residents in the local and surrounding areas.

Unemployment Rate (%)[1]	U.S.	South Dakota	Oklahoma	Arkansas
2015	5.0	2.9	4.1	4.7
2014	5.6	3.3	3.9	5.7
65 and Over (% of population)[2]				
2014	14.5	15.3	14.5	15.7

[1]Source: The Bureau of Labour Statistics of the US Department of Labor.
[2]Source: U.S. Census Bureau, Population Estimates as of July 1, 2014. Release Date: June 2015.

POPULATION PROJECTIONS

The 45+ population is expected to drive demand for the services provided by our facilities.

2020 Projections

~335M U.S. Population

~44% of Population 45+

2030 Projections

~356M U.S. Population

~46% of Population 45+

Source: U.S. Census Bureau, National Population Projections, December 2014.

DIRECTORS & OFFICERS

Expert Guidance and Strong Leadership

Seymour Temkin
Interim CEO
and Chair of the Board

David Bellaire
Director

Marilynne Day-Linton
Lead Director

Stephen Dineley
Director

Dr. Gil Faclier
Director

Irving Gerstein
Director

Dale Lawr
Director

Jeffrey Lozon
Director

John Perri
Director

Dr. Donald Schellpfeffer
Director

Michael Salter
Chief Financial Officer

	MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2015

March 16, 2016

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, 2015, 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 financial measures which it believes provide useful measures for evaluation and assessment of the Corporation's performance. Non-IFRS financial measures do not have any standard meaning prescribed by IFRS, are unlikely to be comparable to similar measures presented by other issuers, and should not be considered as alternatives to comparable measures determined in accordance with IFRS as indicators of the Corporation's financial performance, including its liquidity, cash flows, and profitability.

The Corporation uses the following non-IFRS financial measures which are presented in Section 7 of this MD&A under the heading "Reconciliation of Non-IFRS Financial Measures" and reconciled to the applicable IFRS measures:

- **Cash available for distribution** is a non-IFRS financial measure of cash generated from operations during a reporting period which is available for distribution to common shareholders. Cash available for distribution is derived from cash flows from operations before changes in non-cash working capital, less maintenance capital expenditures, interest and principal repayments on non-revolving debt obligations, non-controlling interest in cash flows at the Center level and gains or losses on foreign exchange forward contracts matured in the relevant 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 financial measure calculated as the cash available for distribution divided by the weighted average number of 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 financial 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 ("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"), five of which own 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 orthopedic, neurosurgery, pain management and other non-emergency elective procedures. In addition, three of the SSHs provide primary and urgent care to their communities.

On June 4, 2015, Dakota Plains Surgical Center, LLP ("DPSC"), the Corporation's 65% owned subsidiary, entered into an asset purchase agreement to sell the assets related to the operation of its SSH in Aberdeen, South Dakota, to Avera St. Luke's. The transaction was completed on June 30, 2015 for net proceeds of $33.8 million. For the year ended December 31, 2015, results for DPSC, including gain on sale of DPSC's assets, are presented in "Income for the year from discontinued operation" in the statement of comprehensive income. The Corporation's share of the gain on disposal of assets of DPSC amounted to $9.3 million on an after-tax basis. For additional information on the discontinued operation, please see Note 4 in the Corporation's financial statements.

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, 2015

	Black Hills Surgical Hospital ("BHSH")	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	Sioux Falls South Dakota	Oklahoma City Oklahoma	North Little Rock Arkansas	Newport Beach California
Year Opened	1997	1985	1999	2005	2004
Year Acquired by the Corporation	2004	2004	2005	2012	2008
Ownership Interest	54.2%	51.0%	60.3%	51.0%	51.0%
Non-controlling Interest	45.8%	49.0%	39.7%	49.0%	49.0%
Exchangeable Interest	10.8%	14.0%	4.7%	5.0%	-
Size	75,000 sq ft	76,000 sq ft	61,000 sq ft	126,000 sq ft	7,000 sq ft
Operating Rooms	11	13	7	11	2
Overnight Rooms	26	35	25	41[1]	-

[1] *Licensed for 49 beds.*

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information from Continuing Operations

	For the Years Ended December 31,		
In thousands of U.S. dollars, except per share amounts and as indicated otherwise	**2015**	**2014**	**2013**
Facility service revenue	308,778	297,382	293,160
Operating expenses	234,086	230,695	226,402
Income from operations	74,692	66,687	66,758
Income for the year from continuing operations	70,179	51,151	39,250
Attributable to:			
Owners of the Corporation	37,018	21,245	8,137
Non-controlling interest[1]	33,161	29,906	31,113
Earnings per share attributable to owners of the Corporation			
Basic	$ 1.18	$ 0.68	$ 0.27
Fully diluted	$ 0.53	$ 0.51	$ 0.27
Cash available for distribution[2]	C$ 45,853	C$ 41,366	C$ 40,823
Distributions	C$ 35,186	C$ 35,261	C$ 34,402
Cash available for distribution per common share[2]	C$ 1.466	C$ 1.320	C$ 1.340
Distributions per common share	C$ 1.125	C$ 1.125	C$ 1.129
Payout ratio[2]	76.7%	85.2%	84.3%

	At December 31, 2015	At December 31, 2014	At December 31, 2013
Total assets	382,952	409,709	439,253
Total long-term financial liabilities[3]	58,194	71,799	59,141

[1] *Income from continuing operations attributable to non-controlling interest represents the interest of the Centers' non-controlling interests in the net income of the Centers on a stand-alone basis and, therefore, varies in direct relation to the operating results of the Centers. On the other hand, income from continuing operations 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.*

[2] *Non-IFRS financial 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" for a reconciliation to the equivalent IFRS measure.*

[3] *Consists of long-term debt and convertible debentures.*

Selected Financial Information from Continuing Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

For the year ended December 31, 2015, revenue was $308.8 million, an increase of 3.8% over 2014 due to the growth in revenue recorded by all Centers. Income from operations increased by 12.0% to $74.7 million, or 24.2% of revenue, compared to $66.7 million, or 22.4% of revenue, in 2014. Income for the year from continuing operations was $70.2 million compared to $51.2 million in 2014. The increase in income from continuing operations was primarily due to the positive impact of declines in the values of exchangeable interest liability and convertible debentures, and higher income from operations, which were partially offset by an increase in income tax expense. The Corporation generated cash available for distribution of Cdn$45.9 million, an increase of 10.9% over the prior year. Distributions per common share remained consistent between the years at Cdn$1.125, while the payout ratio was 76.7% compared to 85.2% for the year ended December 31, 2014. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures".

Selected Financial Information from Continuing Operations for the Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

For the year ended December 31, 2014, revenue was $297.4 million, an increase of 1.4% 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 0.1% to $66.7 million, or 22.4% of revenue, compared to $66.8 million, or 22.8% of revenue, in 2013. Income for the year from continuing operations of $51.2 million increased by 30.3%, 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.

5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

Three Months Ended December 31, 2015

The following table and discussion compare operating and financial results of the Corporation from continuing operations for the three months ended December 31, 2015 to the three months ended December 31, 2014.

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2015**	**2014**	**$ Change**	**% Change**
Facility service revenue	**89,760**	**82,457**	**7,303**	**8.9%**
Operating expenses				
Salaries and benefits	22,145	20,259	1,886	9.3%
Drugs and supplies	24,138	22,791	1,347	5.9%
General and administrative expenses	9,768	11,524	(1,756)	(15.2%)
Depreciation of property and equipment	2,119	2,361	(242)	(10.2%)
Amortization of other intangibles	3,796	3,408	388	11.4%
	61,966	**60,343**	**1,623**	**2.7%**
Income from operations	**27,794**	**22,114**	**5,680**	**25.7%**
Finance costs				
Decrease in value of convertible debentures	(2,077)	(242)	(1,835)	758.3%
Decrease (increase) in value of exchangeable interest liability	(8,249)	8,017	(16,266)	(202.9%)
Interest expense on exchangeable interest liability	2,263	2,069	194	9.4%
Interest expense, net of interest income	753	895	(142)	(15.9%)
Loss on foreign currency	293	1,705	(1,412)	(82.8%)
	(7,017)	**12,444**	**(19,461)**	**(156.4%)**
Income before income taxes	**34,811**	**9,670**	**25,141**	**259.8%**
Income tax expense	9,500	2,923	6,577	225.0%
Income for the period from continuing operations	**25,311**	**6,747**	**18,564**	**274.9%**
Attributable to:				
Owners of the Corporation	13,343	(2,561)	15,904	(621.0%)
Non-controlling interest	11,968	9,308	2,660	28.6%
Basic earnings (loss) per share attributable to owners of the Corporation	$ 0.43	($ 0.08)	$ 0.51	(637.5%)
Fully diluted earnings (loss) per share attributable to owners of the Corporation	$ 0.22	($ 0.08)	$ 0.30	(375.0%)

Revenue

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	**2015**	**2014**	**$ Change**	**% Change**
BHSH	22,539	21,687	852	3.9%
SFSH	29,988	26,158	3,830	14.6%
OSH	17,625	16,853	772	4.6%
ASH	17,447	15,783	1,664	10.5%
SCNC	2,161	1,976	185	9.4%
Facility service revenue	**89,760**	**82,457**	**7,303**	**8.9%**

For the three months ended December 31, 2015, consolidated revenue of $89.8 million increased by $7.3 million or 8.9% from the same period in 2014 primarily due to the growth in case volume ($7.2 million), a favourable shift in payor mix ($0.8 million), and higher ancillary revenue from pain

management, imaging and urgent and primary care cases ($0.5 million), which were partially offset by an unfavourable shift in case mix ($1.4 million).

Total surgical cases increased by 9.3%, a large portion of which was for outpatient cases which have a lower fee schedule. Total pain management procedures increased by 3.6%. The payor mix reflected a higher proportion of cases which were funded by commercial insurance and self-pay patients.

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

- BHSH recorded growth in surgical case volume and more favourable payor mix, which were partially offset by changes in case mix, primarily related to smaller cases that generate lower revenue per case.

- SFSH recorded an increase in surgical cases, a favourable shift in payor mix, and growth in pain management, imaging, and primary care revenue, which were partially offset by changes in case mix and electronic health records ("EHR") incentive payments.

- OSH's revenue increased primarily due to an increase in surgical cases and the addition of urgent care revenue, partially offset by changes in payor mix and EHR incentive payments.

- ASH recorded an increase in surgical case volume which was partially offset by changes in case mix.

- SCNC's revenue was positively impacted by a more favourable case mix attributable to increased women's health and complex orthopedic cases and billings due to flow-through charges for implants, along with favourable changes to payor mix, which were partially offset by a decline in surgical cases.

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 $62.0 million, an increase of $1.6 million or 2.7%. As a percentage of revenue, operating expenses decreased to 69.0% from 73.2% in the same period a year earlier.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	2015	Percentage of Revenue	2014	Percentage of Revenue	$ Change	% Change
BHSH	14,003	62.1%	14,178	65.4%	(175)	(1.2%)
SFSH	16,958	56.5%	14,607	55.8%	2,351	16.1%
OSH	13,648	77.4%	13,523	80.2%	125	0.9%
ASH	9,829	56.3%	11,542	73.1%	(1,713)	(14.8%)
SCNC	1,636	75.7%	1,574	79.7%	62	3.9%
Corporate	5,892	n/a	4,919	n/a	973	19.8%
Operating expenses	**61,966**	**69.0%**	**60,343**	**73.2%**	**1,623**	**2.7%**

Consolidated salaries and benefits increased by $1.9 million or 9.3%. Salaries and benefits at the Center level increased primarily due to annual salary increases and employee profit sharing at ASH which together totaled $0.7 million, increased staffing levels at BHSH ($0.2 million), increased urgent care and pain management staffing at OSH ($0.2 million), and administrative salary increases and incentive pay changes at SFSH ($0.3 million). Salaries and benefits at the corporate level were higher compared to the same period in 2014 due to retirement allowance and incentive compensation. As a percentage of revenue, consolidated salaries and benefits increased to 24.7% from 24.6% a year earlier.

Consolidated drugs and supplies increased by $1.3 million or 5.9% primarily due to higher case volumes ($2.0 million) and an accrual at SFSH for performance fees of $0.4 million in relation to the orthopedic service line management agreement (refer to Section 13 of this MD&A under the heading "Related Party Transactions"), which were partially offset by changes in case mix and cost savings amounting to $1.1 million. As a percentage of revenue, consolidated cost of drugs and supplies declined to 26.9% from 27.6% a year earlier.

Consolidated general and administrative expenses ("G&A") decreased by $1.8 million or 15.2% primarily due to a non-cash reversal of an accrued rent liability by ASH ($2.7 million) that resulted from the early termination of ASH's premises lease, and declines in contributions ($0.5 million), which were made in 2014 to Patient Choice for South Dakota in support of Initiated Measure 17, and purchased services ($0.2 million). These decreases were partially offset by $0.5 million in payments by SFSH for management services related to the orthopedic service line management agreement and $0.2 million in accountable care organization costs (refer to Section 13 of this MD&A under the heading "Related Party Transactions"), and $0.7 million in professional fees, consulting fees, information technology costs and repairs and maintenance costs. As a percentage of revenue, consolidated G&A decreased to 10.9% from 14.0% a year earlier.

Consolidated depreciation of property and equipment declined by $0.2 million or 10.2% primarily due to certain assets being fully depreciated at the Centers. As a percentage of revenue, consolidated depreciation of property and equipment declined to 2.4% from 2.9% a year earlier.

Consolidated amortization of other intangibles increased by $0.4 million or 11.4%. As a percentage of revenue, consolidated amortization of other intangibles increased to 4.2% from 4.1% a year earlier.

Income from Operations

Consolidated income from operations of $27.8 million was $5.7 million or 25.7% higher than consolidated income from operations recorded a year earlier, representing 31.0% of revenue compared to 26.8% in the same period in 2014. The increase in consolidated income from operations reflects the growth in consolidated revenue, coupled with lower G&A at ASH due to the non-cash reversal of an accrued rent liability.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2015**	**Percentage of Revenue**	**2014**	**Percentage of Revenue**	**$ Change**	**% Change**
BHSH	8,536	37.9%	7,509	34.6%	1,027	13.7%
SFSH	13,030	43.5%	11,551	44.2%	1,479	12.8%
OSH	3,977	22.6%	3,330	19.8%	647	19.4%
ASH	7,618	43.7%	4,241	26.9%	3,377	79.6%
SCNC	525	24.3%	402	20.3%	123	30.6%
Corporate	(5,892)	n/a	(4,919)	n/a	(973)	19.8%
Income from operations	**27,794**	**31.0%**	**22,114**	**26.8%**	**5,680**	**25.7%**

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 calculations of the changes in values of the convertible debentures for the reporting periods:

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2015**	**September 30, 2015** *Unaudited*	**Change**	**December 31, 2014**	**September 30, 2014** *Unaudited*	**Change**
Face value of convertible debentures outstanding in thousands of Canadian dollars	C$41,743	C$41,755	(C$12)	C$41,786	C$41,786	-
Closing price of convertible debentures outstanding	C$101.50	C$104.51	(C$3.01)	C$105.50	C$102.50	C$3.00
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.3840	C$1.3345	C$0.0495	C$1.1601	C$1.1200	C$0.0401
Market value of convertible debentures outstanding	**30,614**	**32,700**	**(2,086)**	**38,000**	**38,242**	**(242)**
Repurchase of convertible debentures under normal course issuer bid			9			-
Change in value of convertible debentures			**(2,077)**			**(242)**

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 (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 calculations of the changes in values of the exchangeable interest liability for the reporting periods:

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2015**	**September 30, 2015** *Unaudited*	**Change**	**December 31, 2014**	**September 30, 2014** *Unaudited*	**Change**
Number of common shares to be issued for exchangeable interest liability	5,932,340	5,940,296	(7,956)	5,851,799	6,009,415	(157,616)
Less number of common shares to be issued for exchangeable interest liability attributable to discontinued operation	-	-	-	-	(17,716)	17,716
Number of common shares to be issued for exchangeable interest liability attributable to continuing operations	5,932,340	5,940,296	(7,956)	5,851,799	5,991,699	(139,900)
Closing price of the Corporation's common shares	C$14.39	C$15.71	(C$1.32)	C$18.41	C$15.86	C$2.55
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.3840	C$1.3345	C$0.0495	C$1.1601	C$1.1200	C$0.0401
Exchangeable interest liability	**61,681**	**69,930**	**(8,249)**	**92,864**	**84,847**	**8,017**

Interest on Exchangeable Interest Liability

For the three months ended December 31, 2015, interest expense on the exchangeable interest liability increased by $0.2 million over the same period in 2014, primarily due to the variation in distributions from the Centers between the reporting periods.

Interest Expense

For the three months ended December 31, 2015, interest expense, net of interest income, decreased by $0.1 million from the same period in 2014, primarily due to lower interest expense at Center level and a decline in Canadian dollar interest expense on the convertible debentures due to the changes in foreign exchange rates.

Foreign Currency Losses

The Corporation's functional and 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 decline in foreign currency losses of $1.4 million compared to the same period in 2014 is attributable to the fluctuations in the value of the Canadian dollar in relation to U.S. dollar during the three months ended December 31, 2015 compared to the same period in 2014, as well as the expiry and settlement of foreign exchange forward contracts in the respective periods.

Income Tax

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

Unaudited	**Three Months Ended December 31,**			
In thousands of U.S. dollars	**2015**	**2014**	**$ Change**	**% Change**
Current income tax expense	2,801	1,905	896	47.0%
Deferred income tax expense	6,699	1,018	5,681	558.1%
Income tax expense	**9,500**	**2,923**	**6,577**	**225.0%**

The increase in current income taxes was primarily attributable to the increase in taxable income. The increase in deferred income tax expense was 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.

Income from Continuing Operations

The $18.6 million increase in income from continuing operations for the three months ended December 31, 2015 over the same period in 2014 was primarily due to the impact of a decline in the value of exchangeable interest liability and improved performance of the Centers.

Year Ended December 31, 2015

The following table and discussion compare operating and financial results of the Corporation from continuing operations for the year ended December 31, 2015 to the year ended December 31, 2014.

In thousands of U.S. dollars, except per share amounts	Years Ended December 31, 2015	2014	$ Change	% Change
Facility service revenue	**308,778**	**297,382**	**11,396**	**3.8%**
Operating expenses				
Salaries and benefits	80,223	77,331	2,892	3.7%
Drugs and supplies	84,810	84,537	273	0.3%
General and administrative expenses	44,995	43,882	1,113	2.5%
Depreciation of property and equipment	8,909	9,573	(664)	(6.9%)
Amortization of other intangibles	15,149	15,372	(223)	(1.5%)
	234,086	**230,695**	**3,391**	**1.5%**
Income from operations	**74,692**	**66,687**	**8,005**	**12.0%**
Finance costs				
Decrease in value of convertible debentures	(7,353)	(3,253)	(4,100)	126.0%
Decrease in value of exchangeable interest liability	(30,036)	(12,757)	(17,279)	135.4%
Interest expense on exchangeable interest liability	9,172	8,591	581	6.8%
Interest expense, net of interest income	3,024	3,538	(514)	(14.5%)
Loss on foreign currency	4,987	5,091	(104)	(2.0%)
	(20,206)	**1,210**	**(21,416)**	**(1,769.9%)**
Income before income taxes	**94,898**	**65,477**	**29,421**	**44.9%**
Income tax expense	24,719	14,326	10,393	72.5%
Income for the year from continuing operations	**70,179**	**51,151**	**19,028**	**37.2%**
Attributable to:				
Owners of the Corporation	37,018	21,245	15,773	74.2%
Non-controlling interest	33,161	29,906	3,255	10.9%
Basic earnings per share attributable to owners of the Corporation	$ 1.18	$ 0.68	$ 0.51	73.5%
Fully diluted earnings per share attributable to owners of the Corporation	$ 0.53	$ 0.51	$ 0.03	3.9%

Revenue

In thousands of U.S. dollars	Years Ended December 31, 2015	2014	$ Change	% Change
BHSH	78,749	76,687	2,062	2.7%
SFSH	95,773	88,118	7,655	8.7%
OSH	63,363	63,913	(550)	(0.9%)
ASH	63,061	60,450	2,611	4.3%
SCNC	7,832	8,214	(382)	(4.7%)
Facility service revenue	**308,778**	**297,382**	**11,396**	**3.8%**

For the year ended December 31, 2015, consolidated revenue of $308.8 million increased by $11.4 million or 3.8% over 2014. Consolidated revenue growth was attributable to higher case volumes, which generated additional revenue of $14.1 million, and increased ancillary (imaging, and primary and urgent care) revenue of $2.3 million, which were partially offset by changes in case mix of $3.9 million and a decline in EHR incentive payments of $1.1 million.

Total surgical cases increased by 4.5%, a large portion of which was due to outpatient cases. Total pain management procedures increased by 6.6%.

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

- BHSH recorded revenue growth due to a favourable shift in payor mix, increases in urgent care, pain management and imaging revenue, and pharmacy fee increases, which were partially offset by changes in EHR incentive payments.

- SFSH recorded an increase in surgical cases, favourable changes in payor mix, and growth in imaging, pain management and primary care revenue, which were partially offset by changes in case mix and EHR incentive payments.

- OSH's revenue decreased primarily due to unfavourable changes in payor mix and EHR incentive payments, which were partially offset by growth in case volumes.

- ASH recorded growth in case volumes and EHR incentive payments, which were partially offset by changes in case mix.

- SCNC's revenue was negatively impacted by a decline in surgical cases and unfavourable changes in payor mix, which were partially offset by a favourable change in case mix attributable to increases in women's health and complex orthopedic cases.

Operating Expenses

Consolidated operating expenses totaled $234.1 million, an increase of $3.4 million or 1.5%. As a percentage of revenue, operating expenses declined to 75.8% from 77.6% a year earlier.

	Years Ended December 31,					
In thousands of U.S. dollars	**2015**	**Percentage of Revenue**	**2014**	**Percentage of Revenue**	**$ Change**	**% Change**
BHSH	53,662	68.1%	53,577	69.9%	85	0.2%
SFSH	57,035	59.6%	51,988	59.0%	5,047	9.7%
OSH	50,941	80.4%	52,244	81.7%	(1,303)	(2.5%)
ASH	45,054	71.4%	46,061	76.2%	(1,007)	(2.2%)
SCNC	6,174	78.8%	6,043	73.6%	131	2.2%
Corporate	21,220	n/a	20,782	n/a	438	2.1%
Operating expenses	**234,086**	**75.8%**	**230,695**	**77.6%**	**3,391**	**1.5%**

Consolidated salaries and benefits increased by $2.9 million or 3.7% compared to 2014. Salaries and benefits at the Center level increased primarily due to $1.8 million of annual salary increases at the Centers and higher employee profit sharing at ASH, $0.8 million relating to higher administrative salaries, primary care staffing and incentive payment at SFSH, increased staffing at BHSH ($0.5 million), and increased urgent care and pain management staffing at OSH ($0.3 million), which were partially offset by lower benefits costs ($0.8 million). Salaries and benefits at the corporate level increased compared to 2014 primarily due to retirement allowance ($0.7 million), which was partially offset by the changes in the value of the directors' deferred share unit plan ($0.5 million). As a percentage of revenue, consolidated salaries and benefits remained unchanged at 26.0%.

Consolidated drugs and supplies increased by $0.3 million or 0.3% compared to 2014 primarily due to higher case volume ($4.1 million) and a $1.4 million expense at SFSH for performance fees in relation to the orthopedic service line management agreement (refer to Section 13 of this MD&A under the heading "Related Party Transactions"), which were partially offset by changes in case mix and cost savings aggregating to $5.2 million. As a percentage of revenue, consolidated cost of drugs and supplies declined to 27.5% from 28.4% a year earlier.

Consolidated G&A increased by $1.1 million or 2.5%, from a year earlier. The increase in G&A was attributable to a number of factors, the most significant of which were $1.8 million in payments by SFSH for management services related to the orthopedic service line management agreement and $0.6 million in accountable care organization costs (refer to Section 13 of this MD&A under the heading "Related Party Transactions"), $0.5 million in repairs and maintenance costs, $0.4 million in information technology costs and $0.4 million in consulting fees. These increases were partially offset by the non-cash reversal of an accrued rent liability by ASH ($2.7 million). As a percentage of revenue, consolidated G&A decreased to 14.6% from 14.8% a year earlier.

Consolidated depreciation of property and equipment declined by $0.7 million or 6.9% primarily due to the full depreciation of certain property and equipment at certain Centers. As a percentage of revenue, consolidated depreciation of property and equipment declined to 2.9% from 3.2% a year earlier.

Consolidated amortization of other intangibles declined by $0.2 million or 1.5% primarily due to the full amortization of certain referral source assets. As a percentage of revenue, consolidated amortization of other intangibles declined to 4.9% from 5.2% a year earlier.

Income from Operations

Consolidated income from operations of $74.7 million was $8.0 million or 12.0% higher than consolidated income from operations recorded a year earlier, representing 24.2% of revenue compared to 22.4% in 2014.

	Years Ended December 31,					
In thousands of U.S. dollars	**2015**	**Percentage of Revenue**	**2014**	**Percentage of Revenue**	**$ Change**	**% Change**
BHSH	25,087	31.9%	23,110	30.1%	1,977	8.6%
SFSH	38,738	40.4%	36,130	41.0%	2,608	7.2%
OSH	12,422	19.6%	11,669	18.3%	753	6.5%
ASH	18,007	28.6%	14,389	23.8%	3,618	25.1%
SCNC	1,658	21.2%	2,171	26.4%	(513)	(23.6%)
Corporate	(21,220)	n/a	(20,782)	n/a	(438)	2.1%
Income from operations	**74,692**	**24.2%**	**66,687**	**22.4%**	**8,005**	**12.0%**

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 year. 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 calculations of the changes in values of the convertible debentures for the reportable years:

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2015**	**December 31, 2014**	**Change**	**December 31, 2014**	**December 31, 2013**	**Change**
Face value of convertible debentures outstanding in thousands of Canadian dollars	C$41,743	C$41,786	(C$43)	C$41,786	C$41,800	(C$14)
Closing price of convertible debentures outstanding	C$101.50	C$105.50	(C$4.00)	C$105.50	C$105.00	C$0.50
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.3840	C$1.1601	C$0.2239	C$1.1601	C$1.0636	C$0.0965
Market value of convertible debentures outstanding	**30,614**	**38,000**	**(7,386)**	**38,000**	**41,266**	**(3,266)**
Effect of conversion			-			13
Repurchase of convertible debentures under normal course issuer bid			33			-
Change in value of convertible debentures			**(7,353)**			**(3,253)**

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 year. Changes in the recorded value of the exchangeable interest liability between the reportable years are attributable to (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 changes in values of exchangeable interest liability for the reportable years:

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2015**	**December 31, 2014**	**Change**	**December 31, 2014**	**December 31, 2013**	**Change**
Number of common shares to be issued for exchangeable interest liability	5,932,340	5,851,799	80,541	5,851,799	6,274,969	(423,170)
Less number of common shares to be issued for exchangeable interest liability attributable to discontinued operation	-	-	-	-	(13,091)	13,091
Number of common shares to be issued for exchangeable interest liability attributable to continuing operations	5,932,340	5,851,799	80,541	5,851,799	6,261,878	(410,079)
Closing price of the Corporation's common shares	C$14.39	C$18.41	(C$4.02)	C$18.41	C$17.94	C$0.47
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.3840	C$1.1601	C$0.2239	C$1.1601	C$1.0636	C$0.0965
Exchangeable interest liability	**61,681**	**92,864**	**(31,183)**	**92,864**	**105,621**	**(12,757)**
Exercise of exchangeable rights by non-controlling interests			1,147			-
Change in value of exchangeable interest liability			**(30,036)**			**(12,757)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability increased by $0.6 million primarily due to the variation in distributions from the Centers between the reporting years.

Interest Expense

Interest expense, net of interest income, decreased by $0.5 million primarily due to lower interest expense at Center level and a decline in Canadian dollar interest expense on the convertible debentures due to the changes in foreign exchange rates.

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 decrease in foreign currency losses of $0.1 million compared to 2014 is attributable to the fluctuations in the value of the Canadian dollar in relation to the U.S. dollar during 2015 compared to 2014.

Income Tax

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

	Years Ended December 31,			
In thousands of U.S. dollars	**2015**	**2014**	**$ Change**	**% Change**
Current income tax expense	1,015	1,637	(622)	(38.0%)
Deferred income tax expense	23,704	12,689	11,015	86.8%
Income tax expense	**24,719**	**14,326**	**10,393**	**72.5%**

The decrease in current income tax expense is primarily attributable to increased tax deductible expenses compared to the prior year. 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.

Income from Continuing Operations

A $19.0 million increase in income from continuing operations was primarily due to the impact of the declines in the respective values of the exchangeable interest liability and convertible debentures, as well as to the improved performance of the Centers, which were partially offset by an increase in income tax expense.

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results from Continuing Operations

Unaudited	2015				2014			
In thousands of U.S. dollars, except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Facility service revenue	**89,760**	**73,137**	**73,636**	**72,245**	**82,457**	**74,218**	**71,231**	**69,476**
Operating expenses								
Salaries and benefits	22,145	19,680	19,240	19,158	20,259	18,729	19,119	19,224
Drugs and supplies	24,138	20,734	20,450	19,488	22,791	21,799	20,003	19,944
General and administrative expenses	9,768	11,990	11,914	11,323	11,524	10,659	10,503	11,196
Depreciation of property and equipment	2,119	2,209	2,234	2,347	2,361	2,426	2,408	2,378
Amortization of other intangibles	3,796	3,791	3,817	3,745	3,408	4,034	3,988	3,942
	61,966	**58,404**	**57,655**	**56,061**	**60,343**	**57,647**	**56,021**	**56,684**
Income from operations	**27,794**	**14,733**	**15,981**	**16,184**	**22,114**	**16,571**	**15,210**	**12,792**
Finance costs								
Increase (decrease) in value of convertible debentures	(2,077)	(1,567)	(677)	(3,031)	(242)	(2,933)	(971)	893
Increase (decrease) in value of exchangeable interest liability	(8,249)	(2,338)	(4,953)	(14,496)	8,017	(19,692)	(12,065)	10,983
Interest expense on exchangeable interest liability	2,263	2,019	2,143	2,747	2,069	1,851	2,117	2,554
Interest expense, net of interest income	753	774	747	750	895	874	853	916
Loss (gain) on foreign currency	293	1,620	(567)	3,641	1,705	2,876	(2,598)	3,108
	(7,017)	**508**	**(3,307)**	**(10,389)**	**12,444**	**(17,024)**	**(12,664)**	**18,454**
Income (loss) before income taxes	**34,811**	**14,225**	**19,288**	**26,573**	**9,670**	**33,595**	**27,874**	**(5,662)**
Income tax expense (recovery)	9,500	3,614	2,882	8,723	2,923	8,600	5,489	(2,686)
Income (loss) for the period from continuing operations	**25,311**	**10,611**	**16,406**	**17,850**	**6,747**	**24,995**	**22,385**	**(2,976)**
Attributable to:								
Owners of the Corporation	13,343	3,663	9,279	10,733	(2,561)	17,512	15,422	(9,128)
Non-controlling interest	11,968	6,948	7,127	7,117	9,308	7,483	6,963	6,152
Earnings (loss) per share attributable to owners of the Corporation:								
Basic	$ 0.43	$ 0.12	$ 0.30	$ 0.34	($ 0.08)	$ 0.56	$ 0.49	($ 0.29)
Fully diluted	$ 0.22	$ 0.08	$ 0.20	$ 0.04	($ 0.08)	$ 0.11	$ 0.23	($ 0.29)

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 result in lower revenue 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 is 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 last eight quarterly reporting periods, revenue has also been impacted by the periodic receipt of EHR incentive payments and the 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 costs related to the Corporation's strategic move into urgent and primary care. During the last

four quarterly reporting periods, operating expenses have been impacted by costs related to the establishment of an accountable care organization by SFSH as well as the entering by SFSH into a management agreement for its orthopedic service line (refer to Section 13 of this MD&A under heading "Related Party Transactions"). In addition, in the fourth quarter of 2015, ASH recorded a non-cash reversal of an accrued rent liability of $2.7 million that resulted from the early termination of its premises lease.

- The changes in the recorded value 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 the exchange rate of the Canadian dollar in relation to U.S. dollar.

- Fluctuations in current income taxes have been driven by changes in operating performance of the Centers, the deductibility of corporate expenses, intercompany interest expense deductions and taxable (deductible) foreign exchange gains (losses). Fluctuations in deferred income taxes have been driven primarily by 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,	
		2015	2014	2015	2014
In thousands of U.S. dollars, except as indicated otherwise		*Unaudited*	*Unaudited*		
CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**23,346**	**27,197**	**80,240**	**88,000**
Non-controlling interest in cash flows of the Centers[1]		(14,667)	(13,739)	(45,706)	(44,344)
Interest expense on exchangeable interest liability[2]		2,263	2,064	9,172	8,603
Difference between straight-line rent expense and actual payments made[3]		(2,535)	123	(2,175)	563
Maintenance capital expenditures[4]		(862)	(1,062)	(2,780)	(2,984)
Difference between accrual based amounts and actual cash flows related to interest and taxes[5]		63	(2,930)	5,631	(1,270)
Change in non-cash operating working capital items[6]		4,384	912	1,517	(3,840)
Realized losses on foreign exchange forward contracts which matured in the current period[7]		(1,690)	(981)	(6,475)	(3,034)
Repayment of non-revolving debt[8]		(892)	(836)	(3,565)	(4,242)
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**9,410**	**10,748**	**35,859**	**37,452**
	CDN	**12,566**	**12,205**	**45,853**	**41,366**
Realized losses on matured foreign exchange forward contracts, net of taxes	USD	1,242	579	4,759	1,790
CASH AVAILABLE FOR DISTRIBUTION EXCLUDING REALIZED LOSSES ON FOREIGN EXCHANGE FORWARD CONTRACTS	**USD**	**10,652**	**11,327**	**40,618**	**39,242**
	CDN	**14,225**	**12,863**	**51,938**	**43,343**
DISTRIBUTIONS	**CDN**	**8,766**	**8,808**	**35,186**	**35,261**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE[9]					
Including realized losses on foreign exchange forward contracts	**CDN**	**$ 0.403**	**$ 0.390**	**$ 1.466**	**$ 1.320**
Excluding realized losses on foreign exchange forward contracts	**CDN**	**$ 0.456**	**$ 0.411**	**$ 1.660**	**$ 1.383**
TOTAL DISTRIBUTIONS PER COMMON SHARE[9]	**CDN**	**$ 0.281**	**$ 0.281**	**$ 1.125**	**$ 1.125**
PAYOUT RATIO					
Including realized losses on foreign exchange forward contracts		**69.7%**	**72.1%**	**76.7%**	**85.2%**
Excluding realized losses on foreign exchange forward contracts		**61.6%**	**68.4%**	**67.8%**	**81.3%**
Average exchange rate of Cdn$ to US$ for the period		1.3354	1.1356	1.2787	1.1045
Weighted average number of common shares outstanding		31,185,411	31,317,912	31,287,313	31,344,891

[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 the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made. As a non-cash adjustment, this item is added back in the calculation of cash available for distribution. The results for the three months and year ended December 31, 2015 include the non-cash reversal of a $2,692 accrual that resulted from the early termination of a premises lease.

[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 losses (gains) 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 Center 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 for the year ended December 31, 2015 includes the interest of the Corporation in the cash flows from the operations of DPSC up to the date of disposal of the operating assets, but excludes the gain on disposal, net of tax, on those assets.

Cash available for distribution in the three-month period ended December 31, 2015 (Cdn$12.6 million) exceeded the total amount of distributions in the same period (Cdn$8.8 million) by Cdn$3.8 million. On a per common share basis, cash available for distribution of Cdn$0.403 was Cdn$0.122, or 43.4%, higher than distributions of Cdn$0.281, resulting in a payout ratio of 69.7% as compared to a payout ratio of 72.1% in the same period in 2014.

Cash available for distribution in the year ended December 31, 2015 (Cdn$45.9 million) exceeded the total amount of distributions in 2014 (Cdn$35.2 million) by Cdn$10.7 million. On a per common share basis, cash available for distribution of Cdn$1.466 was Cdn$0.341, or 30.3%, higher than distributions of Cdn$1.125, resulting in a payout ratio of 76.7% as compared to a payout ratio of 85.2% in 2014.

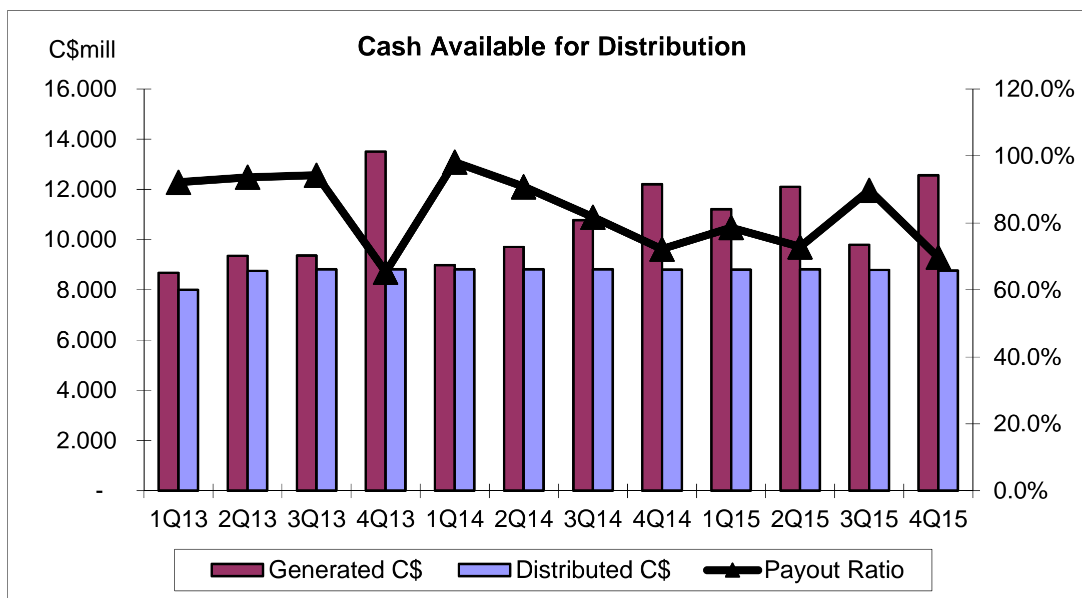
The Corporation's cash available for distribution comes solely from the Centers. The following table provides a reconciliation of cash generated at the Center level to the Corporation's cash available for distribution:

	Three Months Ended December 31,		Years Ended December 31,	
	2015	2014	2015	2014
In thousands of U.S. dollars	*Unaudited*	*Unaudited*		
Cash flows from the Centers:				
Income before interest expense and depreciation	35,674	31,930	106,656	102,481
Debt service costs:				
Interest	(269)	(362)	(1,080)	(1,381)
Repayment of non-revolving debt	(892)	(836)	(3,565)	(4,242)
Maintenance capital expenditures	(862)	(1,062)	(2,780)	(2,984)
Difference between straight-line rent expense and actual payments made	(2,535)	123	(2,175)	563
Cash available for distribution at Center level	31,116	29,793	97,056	94,437
Non-controlling interest in cash available for distribution at Center level	(14,667)	(13,739)	(45,706)	(44,344)
Corporation's share of the cash available for distribution at Center level	**16,449**	**16,054**	**51,350**	**50,093**
Corporate expenses	(2,106)	(1,514)	(6,128)	(5,441)
Interest expense on convertible debentures	(465)	(547)	(1,930)	(2,237)
Realized losses on foreign exchange forward contracts which matured in the current period	(1,690)	(981)	(6,475)	(3,034)
Provision for current income taxes	(2,778)	(2,264)	(958)	(1,929)
Cash available for distribution	**9,410**	**10,748**	**35,859**	**37,452**

Compared to the three months ended December 31, 2014, the cash available for distribution decreased by US$1.3 million or 12.5% primarily due to higher foreign currency losses on foreign exchange forward contracts, corporate expenses and provision for current income taxes.

Compared to the year ended December 31, 2014, the cash available for distribution decreased by US$1.6 million or 4.2% primarily due to higher foreign currency losses on foreign exchange forward contracts and corporate expenses, partially offset by stronger cash flows from the Centers and a lower provision for current income taxes.

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



8. SUBSEQUENT EVENT

On January 14, 2016, the Corporation, through its wholly-owned U.S.-based subsidiary, Medical Facilities IMD Holdings, Inc. ("MF IMD"), acquired 51% interest in Integrated Medical Delivery, LLC ("IMD"), for a cash purchase price of $1.8 million. IMD is a diversified healthcare service company located in Oklahoma City, Oklahoma that provides third-party business solutions to healthcare entities such as physicians, facilities, and insurance companies.

9. OUTLOOK

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to the overall impact of the U.S. and local economies, ongoing changes in the healthcare industry and management strategies of 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" in 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. The strength of the local economies of the areas served by the Corporation's facilities is an important factor in the Corporation's outlook. Management believes that the current growth of the U.S. economy, and in

particular, growth in the service areas of its Centers, if it continues, will reflect positively on the Corporation's financial performance.

Healthcare Industry

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

- the challenge of continuing pressure on reimbursement levels from government-funded plans (Medicare, Medicaid and similar plans) and private insurance companies;
- the opportunity arising from reimbursement incentives which reward healthcare entities that meet specified quality and operational goals and operate in the most efficient and low cost manner;
- 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; and
- an increased demand for services provided by the Corporation's Centers due to the increasing average age and life expectancy of the U.S. population, overall population growth and advances in science and technology.

It is still unclear what the final outcome will be for the expansion in Medicaid beneficiaries which was envisioned under the PPACA. South Dakota and Oklahoma have not implemented an expansion of their Medicaid plans.

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 an 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;
- Reviewing and expanding regions serviced;
- 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, a proven management track record and continuing search for suitable accretive acquisition opportunities will help sustain the Corporation's operating performance and ability to continue its cash distribution practices.

The Corporation's dividends, interest on its convertible debentures and certain corporate expenses are paid in Canadian dollars. All of the Corporation's revenue and the majority of its expenses are domiciled in U.S. dollars. The Corporation does not currently have any outstanding foreign exchange forward contracts in place covering its Canadian dollar requirements. The impact on the Corporation's cash available for distribution in Canadian dollars and its calculated payout ratios will reflect fluctuations in the exchange rate of the Canadian dollar in relation to U.S. dollar.

10. LIQUIDITY AND CAPITAL RESOURCES

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to cash flows and future contractual payments. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth in Section 17 under the heading "Risk Factors" in 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 and short-term and long-term investments are as follows:

In thousands of U.S. dollars	December 31, 2015	December 31, 2014
Cash and cash equivalents at Center level	13,024	15,830
Cash and cash equivalents at corporate level	44,945	25,479
Cash and cash equivalents	**57,969**	**41,309**
Short-term investments	12,975	9,305
Long-term investments	-	3,559
Cash and cash equivalents and short-term and long-term investments	**70,944**	**54,173**

Cash Flow Activity

Cash Flow

	Years Ended December 31,			
In thousands of U.S. dollars	2015	2014	$ Change	% Change
Cash provided by operating activities	80,240	88,000	(7,760)	(8.8%)
Cash generated by (used in) investing activities	29,427	(8,630)	38,057	(441.0%)
Cash used in financing activities	(84,393)	(69,660)	(14,733)	21.1%
Increase in cash and cash equivalents	**25,274**	**9,710**	**15,564**	**160.3%**
Effect of exchange rate fluctuations on cash balances	(8,614)	(4,273)	(4,341)	101.6%
Cash and cash equivalents, beginning of the year	41,309	35,872	5,437	15.2%
Cash and cash equivalents, end of the year	**57,969**	**41,309**	**16,660**	**40.3%**

The Corporation expects to fund operations with cash derived from operating activities. Deficiencies arising from short-term working capital requirements and capital expenditures may be financed on a short-term basis with bank indebtedness 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 the U.S. economy could affect the Corporation's liquidity by reducing cash generated from operating activities or by limiting access to short-term financing as a result of tightening credit markets. Included in the balance of

cash and cash equivalents as at December 31, 2015 is $21.5 million in proceeds to the Corporation from the sale of DPSC's assets completed on June 30, 2015.

Operating Activities and Working Capital

Cash from operating activities in the year ended December 31, 2015 decreased by $7.8 million compared to 2014 primarily due to a $5.9 million increase in income taxes, including withholding taxes, and negative changes in non-cash working capital ($5.4 million), which were partially offset by higher operating income from the Centers.

As at December 31, 2015, the Corporation recorded consolidated net working capital of $85.7 million compared to $61.9 million as at December 31, 2014. The level of working capital, including financing required to cover any deficiencies, is dependent on operating performance of the Centers and fluctuates from period to period. The increase in working capital since December 31, 2015 is primarily the result of increased cash balances due to the sale of DPSC's assets in the second quarter of 2015.

As at December 31, 2015, accounts receivable were $48.8 million (December 31, 2014: $47.0 million), accounts payable and accrued liabilities totaled $33.3 million (December 31, 2014 $32.2 million), total assets were $383.0 million (December 31, 2014: $409.7 million) and total long-term liabilities were $58.2 million (December 31, 2014: $71.8 million).

Investing Activities

The $38.1 million increase in cash from investing activities in the year ended December 31, 2015, compared to 2014 was primarily due to $36.9 million in gross proceeds received from the sale of DPSC's assets. DPSC distributed $33.3 million of net proceeds from disposal of the assets to its partners, including $21.5 million to the Corporation and $11.8 million to the holders of the non-controlling interest in the Center.

Financing Activities

Cash used in financing activities in the year ended December 31, 2015 increased by $14.7 million compared to 2014 primarily due to an increase in distributions to non-controlling interest ($13.6 million) of which $11.8 million related to the sale DPSC, discharge of a real estate loan at DPSC ($3.2 million) and an increase in the repurchase of the Corporation's common shares ($2.6 million), partially offset by lower dividends paid ($4.3 million) primarily attributable to a favourable variance in the Canadian dollar exchange rate.

The Centers have credit facilities in place, excluding capital leases, in the aggregate amount of $57.7 million, of which $33.4 million was utilized as at December 31, 2015. The balances available under the credit facilities, combined with cash and cash equivalents as at December 31, 2015, are available to manage the Centers' accounts payable, supply inventory and other short-term cash requirements. The Center'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 partnership or operating agreements governing each of the respective Centers do not permit the Corporation to access the assets of the Centers to settle the liabilities of other subsidiaries of the Corporation, and the Centers have no obligation to (and could not, without the approval of the holders of

the non-controlling interest) take any steps to settle the liabilities of the Corporation or its other subsidiaries.

The Corporation has in place a Cdn$100.0 million line of credit with a Canadian chartered bank which matures on December 31, 2018 ("credit facility"). The credit facility can be used for general corporate purposes, including working capital and capital expenditures, finance of acquisitions, repayment of convertible debentures, and/or repurchase of the Corporation's common shares. No amount was drawn under the credit facility as of December 31, 2015.

The Corporation's convertible 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, 2015, the Corporation had Cdn$41.7 million aggregate principal amount of convertible debentures outstanding while the market value of the convertible debentures was $30.6 million. The convertible debentures pay interest semi-annually in arrears on June 30 and December 31 of each year. The convertible debentures mature on December 31, 2019 ("Maturity Date") and are convertible into 52.3286 common shares per Cdn$1,000 principal amount of convertible 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 convertible 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 convertible debentures are subordinate to all other existing and future senior unsecured indebtedness of the Corporation.

The convertible debentures contain a provision whereby, in connection with a change in control transaction, holders of the convertible 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.

After December 31, 2015 and prior to December 31, 2017, the convertible 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 convertible 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 could purchase up to Cdn$522,325 aggregate principal amount of its outstanding convertible debentures during the period from December 30, 2014 to December 29, 2015. During the three-month period ended December 31, 2015, the Corporation purchased Cdn$12,000 aggregate principal amount of its outstanding convertible debentures for a total consideration of $9. During the twelve-month period ended December 31, 2015, the Corporation purchased Cdn$43,000 aggregate principal amount of its outstanding convertible debentures for a total consideration of $33.

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, 2015, are as follows:

		Future payments (including principal and interest)				
In thousands of U.S. dollars	**Carrying values at December 31, 2015**	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**Thereafter**
Interest payable	2,107	2,107	2,107	-	-	-
Dividends payable	19,035	19,035	19,035	-	-	-
Accounts payable	14,307	14,307	14,307	-	-	-
Accrued liabilities	849	849	849	-	-	-
Revolving credit facilities	4,500	4,520	4,520	-	-	-
Notes payable and term loans	28,861	31,575	3,239	8,557	19,501	278
Finance lease obligations	2,067	2,158	984	978	196	-
Convertible debentures	30,614	37,838	1,806	3,612	32,420	-
Operating leases and other commitments (not recorded in the financial statements)	-	77,292	7,357	12,644	9,919	47,372
Total contractual obligations	**102,340**	**189,681**	**54,204**	**25,791**	**62,036**	**47,650**

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.

11. SHARE CAPITAL AND DIVIDENDS

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to the Corporation's expected payment of dividends. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth in Section 17 under the heading "Risk Factors" in 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, 2015, the Corporation had 31,113,445 common shares outstanding. In the event that all Cdn$41.7 million aggregate principal amount of convertible 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 2,184,353.

Normal Course Issuer Bids

The Corporation's current normal course issuer bid for its common shares is in effect from May 15, 2015 to May 14, 2016. During the three-month period ended December 31, 2015, the Corporation purchased 124,900 of its common shares for a total consideration of $1,387. During the twelve-month period ended December 31, 2015, the Corporation purchased 300,600 of its common shares for a total consideration of $3,448.

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.

All common shares acquired under the bids were cancelled. Cancellation of common shares purchased in 2015 reduced the annual dividends paid by the Corporation by Cdn$267,200 (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 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, 2015 to December 31, 2015 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 2015, 140,901 common shares were purchased with reinvested dividends totaling Cdn$2.3 million on the open market.

12. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the consolidated balance sheet as at December 31, 2015 consist of cash and cash equivalents, short-term and long-term investments, accounts receivable, other assets, dividends payable, accounts payable, accrued liabilities, borrowings (including long-term debt and convertible debentures) 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.

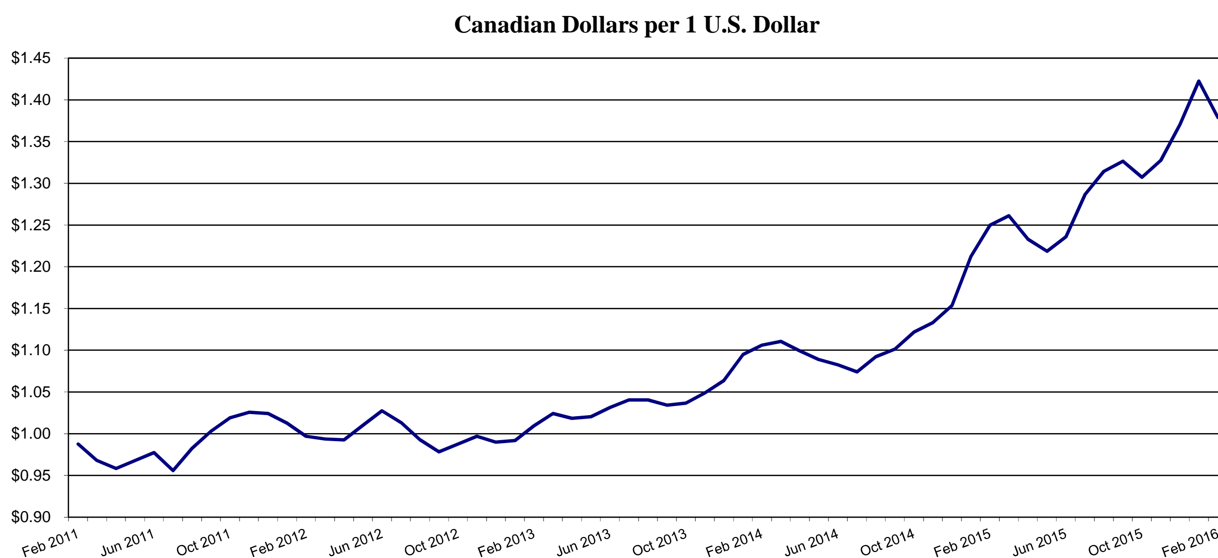
Foreign Exchange Risk

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 and interest on its convertible debentures 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 dividends, interest payments, and expenses. A weakening Canadian currency in relation to U.S. currency has the opposite effect.

The graph below shows the movement of the monthly average exchange rates between Canadian and U.S. dollars since February 2011:



The Corporation from time to time may enter into foreign exchange forward contracts depending upon actual or anticipated company performance and currency market conditions. As of December 31, 2015, the Corporation did not hold any foreign exchange forward 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 may enter into foreign exchange forward contracts and may place excess funds for investment with certain financial institutions. Investment of excess funds is guided by the investment policy of the Corporation that, among other things, (i) prescribes the eligible types of

investments and (ii) establishes limits on the amounts that can be invested with any one financial institution.

Interest Rate Risk

The Corporation and the 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. The Corporation does not have any hedges against price risk.

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.

13. RELATED PARTY TRANSACTIONS

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.

In February 2015, SFSH incorporated a wholly-owned subsidiary which is designed to function as an accountable care organization ("ACO"). The ACO has applied for acceptance and participation in the Medicare Shared Savings Program, which is an incentive program established under the provisions of the PPACA. As one of the initiatives of the ACO, SFSH entered into an agreement with Great Plains Surgical, LLC ("Great Plains"), an entity controlled by certain indirect non-controlling owners of SFSH, for the provision of management services in relation to the orthopedic service line at SFSH to improve the quality of services provided and realize savings on implants and other supplies used in that service line. In addition to the payment of fees for providing management of the orthopedic service line, Great Plains is entitled to receive performance payments for realized cost savings and the attainment of quality levels.

The Centers had transactions with the following related parties during the reporting periods:

In thousands of U.S. dollars				Years Ended December 31,	
Entity	**Related Party**	**Nature of Relationships**	**Nature of Transactions**	**2015 $**	**2014 $**
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 and physician professional fees in relation to South Dakota State Employee Health Plan.	264	239
	Neurosurgical & Spinal Surgery Associates ("NSSA")	Certain indirect non-controlling owners of BHSH are also owners of NSSA.	Provision of physical therapy and intraoperative monitoring services to BHSH. As of June 30, 2014, intraoperative monitoring services agreement was mutually terminated by BHSH and NSSA. NSSA pays rental income for parking to BHSH. Physician professional fees in relation to South Dakota State Employee Health Plan.	92	165
	Rapid City Medical Center	Certain indirect non-controlling owner of BHSH is also owner of Rapid City Medical Center.	Physician professional fees in relation to South Dakota State Employee Health Plan.	4	-
	Dr. Tim and Kim Watt	Indirect non-controlling physician owners.	Provision of dietary and nutrition counselling.	2	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. This arrangement was terminated in February 2014.	-	3
	Orthopedic Surgery Specialists ("OSS")	Certain indirect non-controlling owners of DPSC are also owners of OSS.	Provision of certain physician services to DPSC. This arrangement was terminated in February 2014.	-	392
SFSH	Anesthesiology Associates	Certain indirect non-controlling owner of SFSH is also owner of Anesthesiology Associates.	Provision of anesthesia services to SFSH.	182	182
	Center Inn	Certain indirect non-controlling owners of SFSH are also owners of Center Inn.	Provision of laundry services to SFSH.	246	216
	Great Plains Surgical, LLC ("GPS")	Certain indirect non-controlling owners of SFSH are also owners of GPS.	Provision of management services in relation to orthopedic service line at SFSH.	3,208	-
	Great Plains Surgical Distributorship, LLC ("GPSD")	Certain indirect non-controlling owners of SFSH are also owners of GPSD.	Purchase of medical products and inventory from GPSD by SFSH and payment of rental income by GPSD to SFSH.	884	1,379
	Medical Designs	Indirect non-controlling physician owner of SFSH is also owner of Medical Designs.	Purchase of medical products from Medical Designs by SFSH.	748	1,080
	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. This arrangement was discontinued in August 2014.	-	6
	Midwest Urologic Stone Unit LP ("MUSU")	Certain indirect non-controlling owners of SFSH are also owners of MUSU.	Provision of lithotripter services to SFSH.	182	219
	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.	237	269

In thousands of U.S. dollars				Years Ended December 31,	
Entity	**Related Party**	**Nature of Relationships**	**Nature of Transactions**	**2015 $**	**2014 $**
	Renovis	Certain indirect non-controlling owner of SFSH is also an owner of Renovis.	Purchase of implants.	477	-
	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.	659	767
	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.	1,573	1,481
	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 and other bundled cases.	290	377
OSH	IMD	To the end of 2015, certain indirect non-controlling owners of OSH were also owners of IMD.	Provision of accounting and management services to OSH.	2,940	3,000
	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. This lease terminated in first quarter of 2015.	33	130
	Parkway Medical Center, LLC ("PMC")	MPH owns an equity share of PMC.	Lease of additional office space by OSH.	78	-
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.	1,110	3,585
	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
Related party expenses				**15,291**	**15,575**
Key management and governance compensation				2,927	2,338
Total				**18,218**	**17,913**

[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.

14. 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. Note 21 to the consolidated financial statements of the Corporation for the year ended December 31, 2015 details critical accounting judgments and estimates used in the preparation of the Corporation's financial statements.

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

Revenue

Revenue is recorded in the period when healthcare services are provided based on 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 on the payment terms specified in the related contractual agreements and payment history. Payor contractual payment terms are generally based on predetermined rates per procedure or discounted fee-for-service rates. For payors for which the Centers do not have contracts, the Centers estimate 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 and 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 judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and indefinite life intangible assets are tested for

impairment. Each Center represents a separate CGU for the purposes of testing impairment of non-financial assets. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

Factors considered by management in determining a triggering event include: deterioration in market and economic conditions, volatility in the financial markets causing declines in the Corporation's share price, increases in the Corporation's weighted-average cost of capital, changes in valuation multiples, changes to healthcare legislation in the United States both federally and in the jurisdictions in which the Centers operate, 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 recoverable amount of each CGU using earnings before income taxes, depreciation and amortization ("EBITDA") specific to each CGU by a multiple determined using market data, such as EBITDA to market capitalization ratios of comparable publicly traded companies and recent prices for capital transactions within the industry. Management has estimated cost to dispose to be 1% of the fair value of the CGUs, based on recent market data. To ensure reasonableness of recoverable amounts, management reconciles the recoverable amounts of its CGUs to the enterprise value of the Corporation as at December 31 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 fair value of convertible debentures outstanding, and (iii) the Corporation's portion of the Centers' long-term debt, less (iv) cash on hand.

Management performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2015 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 judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax-planning strategies. If management's estimates or assumptions change from those used in current valuation, management may be required to recognize an adjustment in future periods that would increase or decrease deferred income tax asset or liability and increase or decrease income tax expense.

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, 2018. Earlier application is permitted. The Corporation intends to adopt IFRS 15 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 16 *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16 which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding right of use asset on the balance sheet. There are minimal changes to lessor accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 has been adopted. The Corporation intends to adopt IFRS 16 for the annual period beginning on January 1, 2019. 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 2013 Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the 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, 2015, and has concluded that the design and effectiveness of these controls and procedures at December 31, 2015 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, 2015 using the COSO framework. Management has concluded that the overall design and effectiveness of these controls at December 31, 2015 provide reasonable assurance of the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

There have been no changes in the Corporation's ICFR during the period beginning on October 1, 2015 and ended on December 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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.

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, MFH and MF IMD 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.

Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

December 31, 2015 and 2014
(In U.S. dollars)

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Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Medical Facilities Corporation (the "Corporation") are the responsibility of management and have been approved by the Board of Directors of the Corporation. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making judgments and estimates necessary to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Corporation maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded from loss or unauthorized use and financial records are reliable and form a proper basis for the preparation of the consolidated financial statements.

The Board of Directors of the Corporation ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. The Board of Directors appoints the Audit Committee, all members of which are independent members of the Board of Directors. The Audit Committee meets periodically with management and the Corporation's auditors to discuss the results of the audit, the adequacy of internal accounting controls and financial reporting matters. On the recommendation of the Audit Committee, the consolidated financial statements are forwarded to the Board of Directors for their approval.

"Seymour Temkin"

Seymour Temkin, CPA, CA, FMCA
Interim Chief Executive Officer

"Michael Salter"

Michael Salter, CPA, CA
Chief Financial Officer

Toronto, Canada
March 16, 2016

KPMG LLP
Bay Adelaide Centre
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Independent Auditors' Report

To the Shareholders of Medical Facilities Corporation:

We have audited the accompanying consolidated financial statements of Medical Facilities Corporation, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Medical Facilities Corporation as at December 31, 2015 and December 31, 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 16, 2016
Toronto, Canada

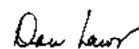
MEDICAL FACILITIES CORPORATION

Consolidated Balance Sheets
(In thousands of U.S. dollars)

	Note	December 31, 2015 $	2014 $
ASSETS			
Current assets			
Cash and cash equivalents		57,969	41,309
Short-term investments		12,975	9,305
Accounts receivable	12.5.2	48,754	46,994
Supply inventory		6,031	5,841
Prepaid expenses and other		4,160	3,450
Total current assets		**129,889**	**106,899**
Non-current assets			
Long-term investments		-	3,559
Deferred income tax assets	15	18,286	38,168
Property and equipment	5	61,121	66,517
Goodwill	6.1	102,714	105,189
Other intangibles	6.2	70,103	88,604
Other assets	18.2	839	773
Total non-current assets		**253,063**	**302,810**
TOTAL ASSETS		**382,952**	**409,709**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		2,107	2,532
Accounts payable		19,035	15,192
Accrued liabilities		14,307	17,026
Income tax payable	15	849	151
Foreign exchange forward contracts	12.1	-	3,627
Current portion of long-term debt	7	7,848	6,438
Total current liabilities		**44,146**	**44,966**
Non-current liabilities			
Long-term debt	7	27,580	33,799
Deferred income tax liabilities	15	4,249	-
Convertible debentures	8	30,614	38,000
Exchangeable interest liability	12.2	61,681	92,864
Total non-current liabilities		**124,124**	**164,663**
Total liabilities		**168,270**	**209,629**
Equity			
Share capital	9.1	398,166	400,467
Deficit		(232,312)	(252,110)
Equity attributable to owners of the Corporation		165,854	148,357
Non-controlling interest	10	48,828	51,723
Total equity		**214,682**	**200,080**
Commitments and contingencies	19		
TOTAL LIABILITIES AND EQUITY		**382,952**	**409,709**

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:



Marilynne Day-Linton

Dale Lawr

MEDICAL FACILITIES CORPORATION

Consolidated Statements of Changes in Equity
(In thousands of U.S. dollars)

		Attributable to Owners of the Corporation			Non-controlling Interest	Total Equity
	Note	Share Capital $	Deficit $	Total $	$	$
2015						
Balance at January 1, 2015		400,467	(252,110)	148,357	51,723	200,080
Net income for the year		-	47,127	47,127	45,416	92,543
Dividends to owners of the Corporation		-	(27,329)	(27,329)	-	(27,329)
Distributions to non-controlling interest		-	-	-	(48,311)	(48,311)
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		1,147	-	1,147	-	1,147
Purchase of common shares under normal course issuer bids	9.3	(3,448)	-	(3,448)	-	(3,448)
Balance at December 31, 2015		**398,166**	**(232,312)**	**165,854**	**48,828**	**214,682**
2014						
Balance at January 1, 2014		401,033	(243,594)	157,439	54,716	212,155
Net income for the year		-	23,308	23,308	31,673	54,981
Dividends to owners of the Corporation		-	(31,824)	(31,824)	-	(31,824)
Distributions to non-controlling interest		-	-	-	(34,666)	(34,666)
Acquisition of additional interest in Dakota Plains Surgical Center, LLP		293	-	293	-	293
Conversion of convertible debentures into common shares		13	-	13	-	13
Purchase of common shares under normal course issuer bids	9.3	(872)	-	(872)	-	(872)
Balance at December 31, 2014		**400,467**	**(252,110)**	**148,357**	**51,723**	**200,080**

The accompanying notes are an integral part of these consolidated financial statements.

MEDICAL FACILITIES CORPORATION

Consolidated Statements of Comprehensive Income
(In thousands of U.S. dollars, except per share amounts)

	Note	Years Ended December 31, 2015 $	2014 $
Facility service revenue		**308,778**	**297,382**
Operating expenses			
Salaries and benefits		80,223	77,331
Drugs and supplies		84,810	84,537
General and administrative		44,995	43,882
Depreciation of property and equipment	5	8,909	9,573
Amortization of other intangibles	6.2	15,149	15,372
		234,086	**230,695**
Income from operations		**74,692**	**66,687**
Finance costs			
Decrease in value of convertible debentures	8	(7,353)	(3,253)
Decrease in value of exchangeable interest liability	12.2	(30,036)	(12,757)
Interest expense on exchangeable interest liability	12.2	9,172	8,591
Interest expense, net of interest income	16	3,024	3,538
Loss on foreign currency	17	4,987	5,091
		(20,206)	**1,210**
Income before income taxes		**94,898**	**65,477**
Income tax expense	15	24,719	14,326
Income for the year from continuing operations		**70,179**	**51,151**
Discontinued operation			
Income for the year from discontinued operation, net of tax	4.4	22,364	3,830
Net income for the year		**92,543**	**54,981**
Attributable to:			
Owners of the Corporation		47,127	23,308
Non-controlling interest	10	45,416	31,673
		92,543	**54,981**
Earnings per share			
From continuing and discontinued operations			
Basic	9.2	$ 1.51	$ 0.74
Fully diluted	9.2	$ 0.79	$ 0.56
From continuing operations			
Basic	9.2	$ 1.18	$ 0.68
Fully diluted	9.2	$ 0.53	$ 0.51

The accompanying notes are an integral part of these consolidated financial statements.

MEDICAL FACILITIES CORPORATION

Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)

	Note	Years Ended December 31, 2015 $	2014 $
Cash flows from operating activities			
Net income for the year		92,543	54,981
Adjustments for:			
Depreciation of property and equipment	5	9,083	9,980
Amortization of other intangibles	6.2	15,460	16,018
Share of equity income in an associate	18.2	(135)	(128)
Decrease in value of convertible debentures	8	(7,353)	(3,253)
Decrease in value of exchangeable interest liability	12.2	(30,036)	(12,684)
Interest expense, net of interest income, including interest expense on exchangeable interest liability		12,265	12,286
Gain on sale of Dakota Plains Surgical Center, LLP's assets, included in discontinued operation, net of tax	4.3	(20,953)	-
Loss on foreign currency	17	4,987	5,091
Income tax expense	15	24,750	14,815
		100,611	97,106
Changes in non-cash operating working capital	11	(1,517)	3,840
		99,094	100,946
Interest paid		(12,266)	(12,278)
Income and withholding taxes paid		(6,588)	(668)
Net cash provided by operating activities		**80,240**	**88,000**
Cash flows from investing activities			
Purchase of property and equipment, net of disposals	5	(7,385)	(8,297)
Gross proceeds from the sale of Dakota Plains Surgical Center, LLP's assets included in discontinued operation	4.1	36,923	-
Investment in Black Hills Surgical Physicians, LLC	18.2	-	(341)
Net investment in short-term investments		(2,903)	(240)
Net redemption of long-term investments		2,792	248
Net cash generated by (used in) investing activities		**29,427**	**(8,630)**
Cash flows from financing activities			
Net proceeds from revolving credit facilities at the Centers	7	1,806	2,060
Repayments of notes payable and obligations under lease arrangements at the Centers	7	(3,565)	(4,242)
Discharge of real estate loan at Dakota Plains Surgical Center, LLP	4.1	(3,157)	-
Distributions, return of capital and loan receivable from an associate	18.2	69	117
Distributions to non-controlling interest	10	(48,311)	(34,666)
Dividends paid		(27,754)	(32,057)
Purchase of common shares under the terms of normal course issuer bids	9.3	(3,448)	(872)
Purchase of convertible debentures under the terms of normal course issuer bid	8	(33)	-
Net cash used in financing activities		**(84,393)**	**(69,660)**
Increase in cash and cash equivalents		**25,274**	**9,710**
Effect of exchange rate fluctuations on cash balances	17	(8,614)	(4,273)
Cash and cash equivalents, beginning of the year		41,309	35,872
Cash and cash equivalents, end of the year		**57,969**	**41,309**
Non-cash transactions:			
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		1,147	-
Acquisition of additional interest in Dakota Plains Surgical Center, LLP		-	293
Conversion of convertible debentures into common shares		-	13

The accompanying notes are an integral part of these consolidated financial statements.

1. REPORTING ENTITY

Medical Facilities Corporation (the "Corporation") is a British Columbia corporation. The address of the Corporation's head office is 45 St. Clair Avenue West, Suite 200, Toronto, Ontario, Canada. The common shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbol "DR".

The Corporation's operations are based in the United States. Through its wholly-owned subsidiaries, the Corporation owns controlling interests in six limited liability entities (the "Centers"), five of which own a specialty hospital or an ambulatory surgery center. On June 30, 2015, Dakota Plains Surgical Center, LLP, the Corporation's 65% owned subsidiary, sold assets related to the operation of its specialty hospital to Avera St. Luke's (note 4).

The Centers, their locations and the Corporation's ownership interest in each are as follows:

		Ownership Interest December 31,	
Centers	**Location**	**2015**	**2014**
Black Hills Surgical Hospital, LLP ("BHSH")	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP ("SFSH")	Sioux Falls, South Dakota	51.0%	51.0%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	60.3%	58.8%
Arkansas Surgical Hospital, L.L.C. ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
The Surgery Center of Newport Coast, LLC ("SCNC")	Newport Beach, California	51.0%	51.0%

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee. The Corporation's significant accounting policies are presented in note 20 to these consolidated financial statements.

These consolidated financial statements were approved by the Corporation's Board of Directors on March 16, 2016.

3. BASIS OF PRESENTATION

These consolidated financial statements include the accounts of the Corporation and all its subsidiaries and have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (note 20.14).

These consolidated financial statements are presented in United States dollars.

4. DISCONTINUED OPERATION

On June 4, 2015, Dakota Plains Surgical Center, LLP ("DPSC"), the Corporation's 65% owned subsidiary, entered into an asset purchase agreement to sell its assets related to the operation of its specialty hospital in Aberdeen, South Dakota, to Avera St. Luke's and to discharge any encumbrances related to the assets sold. The transaction was completed on June 30, 2015.

4.1 Consideration received

	$
Gross proceeds from the sale of DPSC's assets	36,923
Less discharge of real estate loan	(3,157)
Net proceeds from the sale of DPSC's assets	**33,766**

Subsequent to June 30, 2015, DPSC distributed $11,776 to the holders of non-controlling interest in DPSC. The remaining amount was retained in the subsidiaries of the Corporation. As at December 31, 2015, the non-controlling interest in DPSC remains outstanding.

4.2 Analysis of DPSC assets disposed

	$
Prepaid expenses and other	16
Property and equipment	3,697
Goodwill	2,475
Other intangibles	3,041
Total assets disposed of	**9,229**

4.3 Gain on sale of DPSC's assets

	$
Gross proceeds from the sale of DPSC's assets	36,923
Assets disposed of	(9,229)
Transaction costs	(73)
Gain on sale of DPSC's assets before income taxes	27,621
Income tax expense	(6,668)
Total gain on sale of DPSC's assets	**20,953**

4. DISCONTINUED OPERATION (Continued)

4.4 Results of discontinued operation

The comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

	Years Ended December 31,	
	2015 **$**	**2014** **$**
Facility service revenue	6,213	14,452
Operating expenses	4,701	9,903
Income from operations	**1,512**	**4,549**
Finance costs	70	234
Income before income taxes	**1,442**	**4,315**
Income tax expense	31	485
Gain on sale of DPSC's assets, net of tax	20,953	-
Income for the year from discontinued operation	**22,364**	**3,830**

4.5 Cash flows from discontinued operation

	Years Ended December 31,	
	2015 **$**	**2014** **$**
Net cash provided by operating activities	1,899	7,264
Net cash generated by (used in) investing activities	36,913	(62)
Net cash used in financing activities	(17,033)	(2,610)
Net cash flow for the year	**21,779**	**4,592**

5. PROPERTY AND EQUIPMENT

	Land and Improvements	Construction in Progress	Building and Improvements	Equipment and Furniture	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2014	5,143	39	62,485	49,508	117,175
Additions	279	3,378	971	3,672	8,300
Reclassifications	-	(856)	640	216	-
Disposals	-	-	-	(814)	(814)
Balance at December 31, 2014	5,422	2,561	64,096	52,582	124,661
Additions	925	2,160	238	4,061	7,384
Reclassifications	-	(2,602)	1,916	686	-
Disposals	-	-	-	(1,930)	(1,930)
Sale of DPSC's assets	(394)	-	(4,792)	(3,274)	(8,460)
Balance at December 31, 2015	**5,953**	**2,119**	**61,458**	**52,125**	**121,655**
Accumulated Depreciation					
Balance at January 1, 2014	(40)	-	(20,267)	(28,668)	(48,975)
Charged for the year	(25)	-	(4,810)	(5,145)	(9,980)
Disposals	-	-	-	811	811
Balance at December 31, 2014	(65)	-	(25,077)	(33,002)	(58,144)
Charged for the year	(26)	-	(3,206)	(5,851)	(9,083)
Disposals	-	-	-	1,930	1,930
Sale of DPSC's assets	-		1,849	2,914	4,763
Balance at December 31, 2015	**(91)**	**-**	**(26,434)**	**(34,009)**	**(60,534)**
Carrying Amounts					
At December 31, 2014	5,357	2,561	39,019	19,580	66,517
At December 31, 2015	**5,862**	**2,119**	**35,024**	**18,116**	**61,121**

Included in the equipment and furniture for the years 2015 and 2014 is certain equipment under finance lease agreements as follows:

	2015	2014
	$	$
Equipment	7,320	8,909
Less accumulated depreciation	(4,336)	(4,714)
Total	**2,984**	**4,195**

6. GOODWILL AND OTHER INTANGIBLES

6.1 Goodwill

The carrying amount of goodwill as at December 31, 2015 was $102,714 (December 31, 2014: $105,189) (see note 4.2).

6.2 Other intangibles

	Hospital Operating Licenses	Medical Charts and Records	Referral Sources	Trade Names	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2014	1,714	7,981	206,127	9,826	225,648
Balance at December 31, 2014	1,714	7,981	206,127	9,826	225,648
Sale of DPSC's assets	(238)	(582)	(10,204)	(698)	(11,722)
Balance at December 31, 2015	**1,476**	**7,399**	**195,923**	**9,128**	**213,926**
Accumulated Amortization					
Balance at January 1, 2014	(931)	(7,198)	(112,897)	-	(121,026)
Amortization charges	(200)	(200)	(15,618)	-	(16,018)
Balance at December 31, 2014	(1,131)	(7,398)	(128,515)	-	(137,044)
Amortization charges	(199)	(199)	(15,062)	-	(15,460)
Sale of DPSC's assets	238	582	7,861	-	8,681
Balance at December 31, 2015	**(1,092)**	**(7,015)**	**(135,716)**	**-**	**(143,823)**
Carrying Amounts					
At December 31, 2014	583	583	77,612	9,826	88,604
At December 31, 2015	**384**	**384**	**60,207**	**9,128**	**70,103**
Amortization period (years)	5	5-10	10-15	N/A (indefinite life)	

6.3 Impairment

The Corporation performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2015 and December 31, 2014 and determined that there was no impairment.

The Corporation identified five cash generating units ("CGUs") for which impairment testing was performed. Management calculated the recoverable amount of each CGU using earnings before income taxes, depreciation and amortization ("EBITDA") specific to each CGU by a multiple determined using market data, such as EBITDA to market capitalization ratios of comparable publicly traded companies and recent prices for capital transactions within the industry. Management has estimated cost to dispose to be 1% of the fair value of the CGUs, based on recent market data.

For the December 31, 2015 impairment test, enterprise value to EBITDA multiples of 10.1 to 11.1 (2014: 9.7 to 10.7) were determined to be appropriate based on the factors specific to each CGU and a comparison to market information available at the time of the test.

6. GOODWILL AND OTHER INTANGIBLES (Continued)

To ensure reasonableness of recoverable amounts, management reconciles the recoverable amounts of its CGUs to the enterprise value of the Corporation as at December 31 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 fair value of convertible debentures outstanding, and (iii) the Corporation's portion of the Centers' long-term debt, less (iv) cash on hand.

7. LONG-TERM DEBT

	December 31,					
	2015				2014	
	Authorized	Balance	Effective Interest Rate	Maturity	Balance	Effective Interest Rate
	$	$	%		$	%
Revolving credit facilities						
BHSH	9,000	-	2.8	2016 – 2017	-	3.0
SFSH	7,000	-	1.4	2019	-	1.9
OSH	6,350	4,500	3.0	2016	4,400	2.7
ASH	4,000	-	3.3	2016	1,000	3.0
SCNC	2,500	-	3.5	2016	-	3.5
	28,850	**4,500**			**5,400**	
Notes payable						
BHSH	11,201	11,201	3.0	2018 – 2020	12,086	3.5
DPSC	-	-	-	-	3,116	4.5
SFSH	16,330	16,330	2.9	2016 – 2019	16,497	2.9
ASH	1,330	1,330	4.3	2021	-	-
	28,861	**28,861**			**31,699**	
Capital leases						
SFSH	-	1,528	2.3	2016 – 2019	2,464	2.7
ASH	-	539	5.7	2018 – 2020	674	5.6
		2,067			**3,138**	
		35,428			**40,237**	
Less current portion		(7,848)			(6,438)	
		27,580			**33,799**	

Each credit facility and note payable is secured by an interest in all property and a mortgage on real property owned by the respective Center. These credit facilities and notes payable contain certain restrictive financial and non-financial covenants. As at December 31, 2015, the Centers were in compliance with their covenants.

7. LONG-TERM DEBT (Continued)

The following are the future maturities of long-term debt, including capital leases, for the years ending December 31:

	$
2016	7,848
2017	2,702
2018	5,401
2019	18,580
2020	629
2021	268
Future maturities of long-term debt	**35,428**

8. 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% convertible unsecured subordinated debentures ("convertible debentures"). The convertible debentures pay interest semi-annually in arrears on June 30 and December 31 of each year, mature on December 31, 2019 ("Maturity Date"), and are convertible into 52.3286 common shares per Cdn$1,000 principal amount of convertible debentures at the option of the holder, representing a conversion price of Cdn$19.11 per common share ("Conversion Price"). If the holders of the convertible 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 convertible debentures are subordinate to all other existing and future senior unsecured indebtedness of the Corporation.

The convertible debentures contain a provision whereby, in connection with a change of control transaction, holders of the convertible 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.

After December 31, 2015 and prior to December 31, 2017, the convertible 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 convertible 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.

8. CONVERTIBLE DEBENTURES (Continued)

The Corporation's normal course issuer bid for its convertible debentures was in effect from December 30, 2014 to December 29, 2015. In 2015, the Corporation purchased Cdn$43,000 aggregate principal amount of its outstanding convertible debentures for a total consideration of $33. The Corporation did not purchase any of its convertible debentures under the normal course issuer bid which terminated on December 29, 2014.

The following table represents changes in the convertible debentures for the years 2015 and 2014:

	$
Balance at January 1, 2014	41,266
Conversion of convertible debentures into common shares	(13)
Decrease in fair value of convertible debentures at market price	(3,253)
Balance at December 31, 2014	38,000
Convertible debentures purchased under the terms of normal course issuer bid	(33)
Decrease in fair value of convertible debentures at market price	(7,353)
Balance at December 31, 2015	**30,614**

9. SHARE CAPITAL

9.1 Share capital

The following table represents changes in the number and value of common shares issued and outstanding for the years 2015 and 2014:

	Number of Common Shares	$
Balance at January 1, 2014	31,366,750	401,033
Common shares issued for acquisition of additional interest in DPSC	17,716	293
Common shares issued on exchange of convertible debentures	732	13
Common shares purchased and cancelled under the terms of normal course issuer bids (note 9.3)	(55,600)	(872)
Balance at December 31, 2014	31,329,598	400,467
Common shares issued for acquisition of additional interest in OSH	84,447	1,147
Common shares purchased and cancelled under the terms of normal course issuer bids (note 9.3)	(300,600)	(3,448)
Balance at December 31, 2015	**31,113,445**	**398,166**

9. SHARE CAPITAL (Continued)

9.2 Earnings per share

Basic earnings per share attributable to owners of the Corporation are calculated as follows:

		Year Ended December 31, 2015			Year Ended December 31, 2014		
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income for the year attributable to owners of the Corporation	$	37,018	10,109	47,127	21,245	2,063	23,308
Divided by weighted average number of common shares outstanding for the period		31,287,313	31,287,313	31,287,313	31,344,891	31,344,891	31,344,891
Basic earnings per share attributable to owners of the Corporation	**$**	**1.18**	**0.32**	**1.51**	**0.68**	**0.07**	**0.74**

9. SHARE CAPITAL (Continued)

Fully diluted earnings per share attributable to owners of the Corporation are calculated as follows:

		Year Ended December 31, 2015			Year Ended December 31, 2014		
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income for the year attributable to owners of the Corporation	$	37,018	10,109	47,127	21,245	2,063	23,308
Decrease in value of convertible debentures		(7,353)	-	(7,353)	(3,253)	-	(3,253)
Interest expense on convertible debentures (tax effected)		1,419	-	1,419	1,644	-	1,644
Decrease in value of exchangeable interest liability (tax effected)		(19,223)	-	(19,223)	(8,164)	45	(8,119)
Interest expense on exchangeable interest liability		9,172	-	9,172	8,591	19	8,610
Modified net income for the year attributable to owners of the Corporation	$	21,033	10,109	31,142	20,063	2,127	22,190
Divided by weighted average number of common shares:							
Outstanding for the period		31,287,313	-	31,287,313	31,344,891	-	31,344,891
Deemed to be issued on the conversion of the outstanding convertible debentures		2,185,478	-	2,185,478	2,186,969	-	2,186,969
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		5,892,069	-	5,892,069	6,047,980	15,404	6,063,384
Weighted average number of common shares		39,364,860	-	39,364,860	39,579,840	15,404	39,595,244
Fully diluted earnings per share	**$**	**0.53**		**0.79**	**0.51**		**0.56**

9.3 Normal course issuer bids

Pursuant to the terms of the Corporation's normal course issuer bids, in 2014, the Corporation purchased 55,600 of its common shares for a total consideration of $872 (note 9.1). In 2015, the Corporation purchased 300,600 of its common shares for a total consideration of $3,448 (note 9.1). The purchases under the bids are recorded in share capital. All common shares acquired under these bids were cancelled.

10. NON-CONTROLLING INTEREST

The following tables summarize financial information in respect of the non-controlling interest of each Center. The summarized financial information below represents amounts before intra-group eliminations.

December 31, 2015	BHSH $	SFSH $	OSH $	ASH $	SCNC $
Non-controlling interest percentage	**35%**	**35%**	**35%**	**44%**	**49%**
Current assets	14,130	24,505	16,737	11,962	3,337
Non-current assets	24,349	24,120	4,138	6,871	997
Current liabilities	11,823	13,915	10,497	9,360	296
Non-current liabilities	9,983	16,089	343	1,572	-
Equity attributable to owners of the Corporation	10,837	12,104	6,523	4,425	2,059
Non-controlling interest	5,836	6,517	3,512	3,477	1,979
Facility service revenue	78,749	95,773	63,363	63,061	7,832
Operating expenses	53,662	57,035	50,941	45,055	6,174
Net income attributable to owners of the Corporation	16,058	24,834	8,001	10,093	846
Net income attributable to non-controlling interest	8,647	13,372	4,308	7,930	812
Net income	**24,705**	**38,206**	**12,309**	**18,023**	**1,658**
Distributions to non-controlling interest	8,551	12,845	4,575	7,582	841
Cash flows from operating activities	27,380	38,390	12,651	18,854	2,457
Cash flows from investing activities	(3,993)	(1,342)	(823)	(907)	(1,717)
Cash flows from financing activities[(1)]	(25,316)	(37,802)	(12,720)	(16,134)	(219)
Net cash inflow (outflow)	**(1,929)**	**(754)**	**(892)**	**1,813**	**521**

[(1)] Cash flows from financing activities include distributions paid to the Corporation and non-controlling interest.

10. NON-CONTROLLING INTEREST (Continued)

December 31, 2014	BHSH $	DPSC $	SFSH $	OSH $	ASH $	SCNC $
Non-controlling interest percentage	**35%**	**35%**	**35%**	**35%**	**44%**	**49%**
Current assets	15,457	4,930	21,891	16,783	9,059	3,376
Non-current assets	23,203	3,860	25,362	4,884	7,501	1,004
Current liabilities	13,096	1,954	13,001	6,379	7,571	283
Non-current liabilities	8,868	2,981	17,036	4,743	2,781	-
Equity attributable to owners of the Corporation	10,852	2,506	11,190	6,854	3,477	2,089
Non-controlling interest	5,844	1,349	6,025	3,691	2,732	2,008
Facility service revenue	76,687	14,452	88,118	63,913	60,450	8,214
Operating expenses	53,577	9,258	51,988	52,244	46,061	6,043
Net income attributable to owners of the Corporation	14,652	3,282	23,043	7,474	8,161	1,107
Net income attributable to non-controlling interest	7,889	1,767	12,408	4,025	6,412	1,064
Net income	**22,541**	**5,049**	**35,451**	**11,499**	**14,573**	**2,171**
Distributions to non- controlling interest	7,735	2,462	11,823	4,553	6,975	1,120
Cash flows from operating activities	25,602	6,529	38,529	14,211	17,406	2,580
Cash flows from investing activities	(1,926)	(62)	(2,742)	(332)	(2,728)	(34)
Cash flows from financing activities[1]	(22,776)	(7,137)	(34,282)	(14,243)	(14,275)	(2,285)
Net cash inflow (outflow)	**900**	**(670)**	**1,505**	**(364)**	**403**	**261**

[1] Cash flows from financing activities include distributions paid to the Corporation and non-controlling interest.

10.1 Significant restrictions

The partnership or operating agreements governing each of the respective Centers (each, a “Partnership Agreement”) do not permit the Corporation to access the assets of the Centers to settle the liabilities of other subsidiaries of the Corporation, and the Centers have no obligation to (and could not, without the approval of the holders of the non-controlling interest) take any steps to settle the liabilities of the Corporation or its other subsidiaries. The Corporation’s rights in respect of each Center are limited to representation on the management committee and approval rights over certain fundamental decisions. The Partnership Agreements require that each Center distribute its available cash to the maximum extent possible, subject to applicable law and compliance with their existing credit facilities, by way of monthly distributions on its partnership interests or other distributions on its securities, after (i) satisfying its debt service obligations under its credit facilities or any other agreements with third parties, (ii) satisfying its other expense obligations, including withholding and other applicable taxes, and (iii) retaining reasonable working capital or other reserves, including amounts on account of capital expenditures and such other amounts as may be considered appropriate by its management committee.

11. NET CHANGES IN NON-CASH WORKING CAPITAL

The following table summarize net changes in non-cash working capital for the years 2015 and 2014:

	2015 $	2014 $
Accounts receivable	(1,362)	3,338
Supply inventory	(588)	(314)
Prepaid expenses and other	(726)	596
Accounts payable	3,843	227
Accrued liabilities	(2,684)	(7)
Total net changes in non-cash working capital	**(1,517)**	**3,840**

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 Foreign exchange forward contracts

At December 31, 2015, the Corporation did not hold any foreign exchange forward contracts. As of December 31, 2014, the fair value of the then outstanding contracts was a liability of $3,627.

12.2 Exchangeable interest liability

Concurrent with the acquisition of its interests in the Centers located in Arkansas, Oklahoma and South Dakota, the Corporation entered into exchange agreements with the vendors who originally retained a 49% non-controlling interest in these Centers. Pursuant to the terms of these exchange agreements, the non-controlling interest holders in each of the Centers received the right to exchange a portion of their interest (“Exchangeable Interest”) in their respective Centers for common shares of the Corporation. Such exchanges may only take place quarterly and are based on the exchange formulae stipulated in the exchange agreements and are subject to certain limitations, including a limitation of exchanging not more than three percent per quarter.

The number of common shares issuable under the Exchangeable Interest is determined by application of a formula which takes into account the number of partnership units being tendered for exchange and an exchange ratio based upon the distributions from the Centers over the prior twelve months. The exchange agreements between the Corporation and the non-controlling interest holders in each of the Centers contain the details of the exchange rights.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Corporation accounts for the Exchangeable Interest as a financial liability. Under this method, the Exchangeable Interest is reflected in the financial statements as follows:

(i) The exchange right is considered to have been fully exchanged at the original dates of acquisition of each of the five Centers in which Exchangeable Interest is held, resulting in the purchase of a further 14% interest in each such Center, except for ASH where 5% can be purchased, for an amount (the "imputed purchase price") proportionate to the price paid for the original 51% interest in such Centers. The imputed purchase price was allocated to the fair value of the assets acquired, including goodwill and other intangibles, consistent with the acquisition of the initial 51% interest.

(ii) The corresponding amount of the imputed purchase price relating to the 14% interest (5% in the case of ASH) is reflected as exchangeable interest liability. The exchangeable interest liability is carried at fair value, as determined at each reporting date by applying the closing common share price on the last trading day of the period, converted into U.S. dollars at the closing exchange rate, to the total number of common shares issuable under the outstanding Exchangeable Interest. Changes in the fair value of the exchangeable interest liability, including their effect on the deferred tax position, are included in net income.

(iii) Amortization of other intangibles and fair market value of property and equipment in excess of underlying book values are consistent with the amortization of the assets that arose on acquisition of the initial 51% interest in each Center.

(iv) The distributions made by each Center, that relate to the ownership interest therein that is the subject of the outstanding Exchangeable Interest, are treated as interest expense in the Corporation's consolidated statement of comprehensive income.

(v) The calculation of fully diluted earnings per share involves certain modifications, if applicable, to net income as reported and the number of issued and outstanding common shares as set out in note 9.2.

The number of common shares to be potentially issued for the exchangeable interest liability and the fair value of the exchangeable interest liability as at December 31, 2015 and December 31, 2014 are as follows:

	December 31,	
	2015	2014
Number of common shares to be potentially issued for exchangeable interest liability	5,932,340	5,851,799
Fair value of the exchangeable interest liability thousands of U.S. dollars	US$ 61,681	US$ 92,864
Fair value of the exchangeable interest liability in thousands of Canadian dollars	Cdn$ 85,367	Cdn$ 107,732

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.3 Fair values and classification of financial instruments

The Corporation obtained the fair value of foreign exchange forward contracts from the counterparties to such contracts. The fair values of the 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 notes payable and revolving credit facilities at the Centers' level approximate their book values as the interest rates are similar to prevailing market rates. The fair values of all other financial instruments of the Corporation, due to the short-term nature of these instruments, approximate their book values.

The following table presents the carrying values and classification of the Corporation's financial instruments as at December 31, 2015 and December 31, 2014:

	December 31,	
	2015 $	2014 $
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	57,969	41,309
Short-term investments	3,496	-
Held-to-maturity (carried at amortized cost)		
Short-term investments	9,479	9,305
Long-term investments	-	3,559
Loans and receivable (carried at amortized cost)		
Accounts receivable	48,754	46,994
Other assets	839	773
Financial liabilities		
Fair value through profit or loss		
Foreign exchange forward contracts	-	3,627
Convertible debentures	30,614	38,000
Exchangeable interest liability	61,681	92,864
Other liabilities (carried at amortized cost)		
Dividends payable	2,107	2,532
Accounts payable	19,035	15,192
Accrued liabilities	14,307	17,026
Long-term debt	35,428	40,237

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The financial instruments of the Corporation that are recorded at fair value have been classified into levels using a fair value hierarchy (note 20.16). The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at fair value as of December 31, 2015 and December 31, 2014. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	December 31, 2015			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	57,969	-	-	57,969
Short-term investments	3,496	-	-	3,496
Financial liabilities				
Convertible debentures	30,614	-	-	30,614
Exchangeable interest liability	-	61,681	-	61,681
Total	**92,079**	**61,681**	**-**	**153,760**

	December 31, 2014			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	41,309	-	-	41,309
Financial liabilities				
Foreign exchange forward contracts	-	3,627	-	3,627
Convertible debentures	38,000	-	-	38,000
Exchangeable interest liability	-	92,864	-	92,864
Total	**79,309**	**96,491**	**-**	**175,800**

12.4 Measurement of fair values

The following are the valuation techniques used in measuring Level 2 fair values (the Corporation does not have any Level 3 fair values).

Financial Instrument	Valuation Technique
Foreign exchange forward contracts	*Market comparison technique:* The fair values are obtained from the counterparties to such contracts. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.
Exchangeable interest liability	*Market comparison technique:* The number of the Corporation's common shares to issue is based on the contractual agreements with the holders of non-controlling interest that have exchange agreements with the Corporation and take into account the distributions to the non-controlling interest over the prior twelve months. The liability is valued based on the market price of the Corporation's common shares converted to the reporting currency as of the reporting date.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5 Financial risk management

In the normal course of its operations, the Corporation faces a number of risks that might have an impact on results of its operations and values of the financial instruments presented in the financial statements. Financial risks are outlined below as well as policies and procedures established by the Corporation for monitoring and controlling these risks.

12.5.1 Foreign Exchange Risk

Dividends to common shareholders of the Corporation, exchangeable interest liability, interest on convertible debentures and a portion of the Corporation's expenses are settled in Canadian dollars while all of its revenues are in U.S. dollars. To mitigate this risk, from time to time, the Corporation may enter into foreign exchange forward contracts to economically hedge its exposure to the fluctuation of the exchange rate between U.S. and Canadian dollars. The Corporation has foreign exchange hedging policies in place and the execution of these policies is monitored by a designated sub-committee of the Board of Directors. As at December 31, 2015, no foreign exchange contracts existed.

The values of Canadian dollar cash and cash equivalents, investments, foreign exchange forward contracts, interest paid and received, convertible debentures and exchangeable interest liability, as reported in the Corporation's financial statements, are dependent on the movement of the exchange rate between U.S. and Canadian dollars. A 1% change in the value of the Canadian dollar against the U.S. dollar would have had the following impact on net income for the years reported:

Exchange rate change	2015 $	2014 $
1% strengthening of the Canadian dollar	161	(59)
1% weakening of the Canadian dollar	(161)	59

12.5.2 Credit Risk

The Corporation faces the following credit risks.

Revenue and Accounts Receivable

The Centers receive payment for services rendered from U.S. federal and state agencies, private insurance carriers, employers, managed care programs and individual patients. As such, the Corporation's accounts receivable principally fall into five categories:

(i) governmental payors,

(ii) health and workers' compensation insurance companies,

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(iii) recoveries from other responsible third parties such as automobile and general liability insurance,

(iv) recoveries for revision surgery from manufacturers of surgical devices subsequently found ineffective or defective, and

(v) co-pay and deductibles due from patients.

Revenue and accounts receivable from health insurance companies are further segregated between those that are independent members of the Blue Cross and Blue Shield System, workers' compensation lines and all others.

Services to the beneficiaries of Medicare and Medicaid and other governmental insurance programs as well as independent members of the Blue Cross and Blue Shield System are reimbursed primarily based on the established amounts, service codes and fees schedules subject to certain limitations. Reimbursements from other private insurance companies are based on the discounts from the rate established at the Centers in accordance with the contracts with such companies (see note 20.20).

The majority of the Corporation's accounts receivable balance is from governmental payors and health insurance companies. Health insurance companies are regulated by State Insurance Departments in the U.S. and are assessed as having a low risk of default, consistent with the Centers' history with these payors.

The table below summarizes the percentages of facility service revenue generated from and accounts receivable balances with each primary third-party payor group in 2015 and 2014:

	2015		2014	
	Facility Service Revenue by Payor %	**Accounts Receivable at December 31 by Payor %**	**Facility Service Revenue by Payor %**	**Accounts Receivable at December 31 by Payor %**
Medicare and Medicaid – category (i)	27.5	13.2	26.5	11.4
Blue Cross and Blue Shield – category (ii)	32.5	28.3	31.1	26.0
Workers' compensation – category (ii)	10.4	14.6	12.2	13.8
Other private insurance – category (iii)	18.7	22.5	19.9	27.4
Other insurance and self-pay – categories (iv) and (v)	10.9	21.4	10.3	21.4
	100.0	**100.0**	**100.0**	**100.0**

Recoverability of amounts due in respect of categories (iii) and (iv) above often involves insurance litigation and is difficult to determine, in which case the full amounts due may be reserved. A very small portion of the facility service revenue is received directly from patients (including those with no insurance and those paying deductibles or co-payments). Recoverability of amounts receivable directly from patients is assessed based on historical experience and amounts considered impaired are provided for in the allowance for non-collectible receivable.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 accuracy of the estimate of recoverability. Considerations related to historical experience are also factored into the valuation of the current period accounts receivable.

The table below summarizes the aging of the Corporation's accounts receivable and related allowance for non-collectible receivable balances as at December 31, 2015 and December 31, 2014:

	December 31,	
	2015 $	2014 $
Accounts receivable	48,754	46,994
Neither past due nor impaired	39,888	38,384
Past due 61-90 days	4,364	4,129
Past due 91-120 days	2,275	2,615
Past due 121-150 days	2,435	1,804
Past due more than 151 days	7,526	8,350
Allowance for non-collectible receivable balances	(7,734)	(8,288)
Net accounts receivable	**48,754**	**46,994**

A significant portion of the accounts receivable older than 151 days relates to auto insurance cases that have historically favourable reimbursement rates but may be subject to variations in the timing of collections and may involve insurance litigation.

Management believes that the unimpaired amounts that are past due by more than 60 days are still collectible, in full, based on the historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings, if they are available.

Concentration of Financial Institutions

From time to time, the Corporation enters into foreign exchange forward contracts and places excess funds for investment with certain financial institutions. Historically, the counterparties to the foreign exchange forward contracts were banking institutions and the Corporation considered their risk of 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.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5.3 Interest Rate Risk

The Corporation and the individual Centers enter into certain long-term credit facilities that expose them to the risk of interest rate fluctuations. The Corporation uses floating rate debt facilities for operating lines of credit that fund short-term working capital needs and uses fixed rate debt facilities to fund investments and capital expenditures.

The interest rate profile of the Corporation's interest-bearing financial liabilities as at December 31, 2015 and December 31, 2014 was:

	December 31,	
	2015 $	2014 $
Facilities with fixed interest rates	61,542	73,837
Facilities with variable interest rates	4,500	4,400
Total	**66,042**	**78,237**

A change of 100 basis points in the interest rates in the reporting period would have led to an increase or a decrease in interest expense of $13 (2014: $12) on facilities with variable interest rates. This does not include the impact of the adjustment of fair value of the convertible debentures since these are fixed-rate instruments.

12.5.4 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 because common shares are quoted in Canadian dollars.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5.5 Liquidity Risk

The mandatory repayments under the credit facilities, notes payable, and other contractual obligations and commitments including expected interest payments, on a non-discounted basis, as of December 31, 2015, are as follows:

		Future payments (including principal and interest)				
Contractual Obligations	**Carrying values at Dec 31, 2015 $**	**Total $**	**Less than 1 year $**	**1-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	2,107	2,107	2,107	-	-	-
Accounts payable	19,035	19,035	19,035	-	-	-
Accrued liabilities	14,307	14,307	14,307	-	-	-
Income tax payable	849	849	849	-	-	-
Revolving credit facilities	4,500	4,520	4,520	-	-	-
Notes payable and term loans	28,861	31,575	3,239	8,557	19,501	278
Finance lease obligation	2,067	2,158	984	978	196	-
Convertible debentures	30,614	37,838	1,806	3,612	32,420	-
Operating leases and other commitments (not recorded in the financial statements)	-	77,292	7,357	12,644	9,919	47,372
Total contractual obligations	**102,340**	**189,681**	**54,204**	**25,791**	**62,036**	**47,650**

The Corporation's Cdn$100.0 million credit facility, which matures on December 31, 2018, was undrawn as at December 31, 2015.

The Corporation anticipates renewing, extending or replacing its revolving credit facilities which fall due during 2016 and expects that cash flows from operations and working capital will be adequate to meet future payments on other contractual obligations during 2016.

13. CAPITAL

The Corporation's objective when managing capital is to (i) safeguard the Corporation's ability to continue as a going concern and make acquisitions, (ii) ensure sufficient liquidity to fund current operations and its growth strategy, and (iii) maximize the return to common shareholders.

The capital of the Corporation is defined to include common shares (note 9.1), convertible debentures (note 8) and other debt facilities at the corporate level.

The Corporation manages its liquidity and capital structure by monitoring its cash and cash equivalents, short-term and long-term investments, its current indebtedness and future financing and funding needs.

13. CAPITAL (Continued)

In addition, the Corporation regularly monitors current and forecasted debt levels and key ratios to ensure compliance with debt covenants. As of the reporting date, the Corporation is in compliance with the covenants. The Corporation's long-term debt and revolving lines of credit require the maintenance of various financial ratios. Under the terms of the line of credit, the Corporation must meet two pro forma financial ratios at the time of incurring new debt.

In order to maintain or adjust the capital structure, the Corporation may enter into or repay credit facilities, adjust the amount of dividends paid to common shareholders, repurchase its publicly traded securities or issue new shares or convertible debt. During the twelve-month period ended December 31, 2015, the Corporation has returned capital to shareholders through the repurchase and cancellation of 300,600 common shares under the normal course issuer bids (note 9.3).

14. EMPLOYEE FUTURE BENEFITS

Benefits programs at the Centers include qualified 401(k) retirement plans which cover all employees who meet eligibility requirements. Each participating Center makes matching contributions subject to certain limits. In 2015, contributions made by the five (2014: six) Centers to such plans were $1,476 (2014: $1,754).

15. INCOME TAXES

The U.S. tax return for the Corporation is prepared on a consolidated basis for U.S. entities and includes balances and amounts attributable to these entities. The Canadian income tax return for the Corporation is prepared on a stand-alone basis and includes non-consolidated balances attributable to the Canadian entity only.

Income taxes from continuing operations reported in these consolidated financial statements are as follows:

Provision for Income Taxes	2015 $	2014 $
Current	1,015	1,637
Deferred	23,704	12,689
Total income tax expense from continuing operations	**24,719**	**14,326**

The Corporation pays tax instalments on its estimated U.S. income taxes. The Corporation's income tax provision is reduced by the instalments for the current income taxes as follows:

Income Tax	2015 $	2014 $
Income tax instalments deposited	6,438	1,778
Provision for current income taxes	(7,287)	(1,929)
Income tax payable	**(849)**	**(151)**

15. INCOME TAXES (Continued)

The following table reconciles income taxes, calculated at the U.S. combined federal and state tax rate and the Canadian combined federal and provincial income tax rate, to the income tax expense reported in the consolidated statement of comprehensive income:

	2015		2014	
	$	%	$	%
Net income for the year from continuing operations attributable to the owners of the Corporation	37,018		21,245	
Income tax expense from continuing operations	24,719		14,326	
Income before income taxes	61,737	100.0	35,571	100.0
Income taxes at the statutory rate in Canada	16,360	26.5	9,426	26.5
Effect of:				
Impact of differences between statutory tax rates in Canada and U.S.	2,171	3.5	1,603	4.5
Other including non-taxable and non-deductible amounts	(1,067)	(1.7)	965	2.7
Change in value of exchangeable interest liability	5,201	8.4	919	2.6
Change in value of convertible debentures	(1,948)	(3.2)	(862)	(2.4)
Foreign exchange losses	248	0.4	466	1.3
Changes in previously recognized deferred tax asset	3,754	6.1	1,809	5.1
Income tax expense from continuing operations	**24,719**	**40.0**	**14,326**	**40.3**

As of December 31, 2015, the Corporation had net operating loss carry forwards for Canadian tax purposes totalling $68,415 that are scheduled to expire in the following years:

	$
2027	6,016
2028	21,536
2029	20,501
2030	19,351
2031	1,011
Net operating loss carry forwards	**68,415**

Losses related to the Canadian entity may be used to offset the future income of the Canadian entity for Canadian income tax purposes. As of December 31, 2015, the Corporation has recognized deferred income tax assets of $18,130 in respect of net operating loss carry forwards that will be offset against future taxable income in the Canadian entity.

15. INCOME TAXES (Continued)

The components of deferred income tax balances are as follows:

	2015 $	2014 $
Deferred income tax assets		
Allowance for non-collectible receivable balance	1,398	1,575
Accrued liabilities and other	1,549	1,719
Goodwill and other intangibles	5,798	5,798
Cumulative change in the value of exchangeable interest liability	4,383	15,196
Net operating losses and deductions carry forwards	18,130	28,091
Total deferred income tax assets	**31,258**	**52,379**
Deferred income tax liabilities		
Property and equipment	(3,666)	(2,808)
Prepaid expenses and other	(110)	(91)
Goodwill and other intangibles	(13,445)	(11,312)
Total deferred income tax liabilities	**(17,221)**	**(14,211)**
Net deferred income tax assets	**14,037**	**38,168**

16. INTEREST EXPENSE, NET OF INTEREST INCOME FROM CONTINUING OPERATIONS

Interest expense, net of interest income, from continuing operations included in the statement of comprehensive income consists of the following:

	2015 $	2014 $
Interest expense at Centers' level	1,144	1,471
Interest expense on convertible debentures	1,930	2,237
Amortization of available credit facility stand-by fees	277	330
Interest income at Centers' level	(133)	(235)
Interest income at corporate level	(194)	(265)
Interest expense, net of interest income, from continuing operations	**3,024**	**3,538**

17. LOSS ON FOREIGN CURRENCY

Loss on foreign currency included in the statement of comprehensive income consists of the following:

	2015 $	2014 $
Unrealized loss on foreign exchange forward contracts	-	818
Realized loss on foreign exchange forward contracts which matured in the current period	6,475	3,034
Translation loss on cash balances denominated in Cdn$	2,139	1,239
	8,614	5,091
Change in unrealized gain on foreign exchange forward contracts	(3,627)	-
Loss on foreign currency	**4,987**	**5,091**

18. RELATED PARTY TRANSACTIONS AND BALANCES

18.1 Transactions in the normal course of operations

The Centers routinely enter into transactions with certain related parties. These parties are considered related through common ownership 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 expenses resulting from the Centers' transactions with related parties for the years 2015 and 2014 were as follows:

	2015 $	2014 $
BHSH	362	407
DPSC	-	395
SFSH	8,686	5,976
OSH	4,539	4,618
ASH	1,704	4,179
Total related party expenses	**15,291**	**15,575**

BHSH's related party transactions relate primarily to the provision of physical therapy, intra-operative monitoring, and dietary and nutritional counselling services as well as bundled payments to surgeons for professional fees under health plan arrangements. SFSH's related party transactions were primarily in respect of purchase of medical products, billing and coding services, provision of management services, the use of magnetic resonance imaging ("MRI") facility and related equipment, and bundled payments to surgeons for professional fees under health plan arrangements. OSH's related party transactions were in respect of facility building lease, management services, and software equipment rental. ASH's related party transactions relate to the lease of a building facility, which was sold to a third-party in November 2015, and the sub-lease of MRI equipment.

The amounts payable to the related parties as at December 31, 2015 and December 31, 2014 were as follows:

	December 31,	
	2015 $	2014 $
BHSH	26	47
DPSC	25	-
SFSH	715	392
OSH	109	204
Total payable to related parties	**875**	**643**

18. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

In November 2015, SFSH entered into an agreement with Renovis Surgical Technologies, Inc. ("Renovis") to purchase $485 of medical inventory. This was recorded as prepaid expense on the consolidated balance sheet as the amount would be used to offset future purchases of medical products from Renovis. As of December 31, 2015, SFSH had $378 in prepaid expenses remaining from the transaction.

18.2 Other transactions

Certain of the physicians, who indirectly own the non-controlling interest in each of the Centers, routinely provide professional services directly to patients utilizing the facilities of the Centers and reimburse the Centers for the space and staff utilized. Also, certain of the physicians serve on the boards of management of the Centers and two such individuals perform the duties of Medical Director at the respective Centers and are compensated in recognition of their contribution to the Centers. Also, a physician with non-controlling interest in SFSH is its Chief Executive Officer.

The Corporation owns a 34.2% equity interest in an associate. The Corporation has significant influence over the associate because of its equity position and it has representation on the board of the associate. The investment in and loan receivable from the associate as of December 31, 2015 were $391 and $107, respectively (December 31, 2014: $302 and $130, respectively). The Corporation also has a 0.35% ownership interest in an entity that holds an indirect interest in BHSH for a total consideration of $341, for which the investment is accounted for at cost in the consolidated financial statements. Both investments comprise the 'Other assets' on the consolidated balance sheet.

18.3 Key management and governance compensation

Key management and governance personnel are comprised of executive officers and the directors of the Corporation. Key management and governance compensation for the years 2015 and 2014 was as follows:

	2015 **$**	**2014** **$**
Salaries and other short-term employee benefits for executive officers	1,913	1,271
Director compensation	1,014	1,067
Total key management and governance compensation	**2,927**	**2,338**

Salaries and other short-term employee benefits for executive officers include payments to executive officers for their base salaries, bonuses, social security payments, medical and workers' compensation insurance payments, retirement allowance, and payments under the Corporation's long-term incentive plan. Director compensation consists of retainers, meeting fees and fees for special projects where a director is asked to undertake such special projects.

19. COMMITMENTS AND CONTINGENCIES

19.1 Commitments

In the normal course of operations, the Centers lease certain equipment under non-cancellable long-term leases and enter into various commitments with third parties. In addition, certain of the Centers lease their facility space from related (note 18) and non-related parties. Minimum payments for these leases are detailed in "Liquidity risk" section in note 12.5.5.

19.2 Contingencies

In the normal course of business, the Centers are, from time to time, subject to allegations that may result in litigation. Certain allegations may not be covered by the Centers' commercial and liability insurance. The Centers evaluate such allegations by conducting investigations to determine the validity of each potential claim. Based on the advice of the legal counsel, management records an estimate of the amount of the ultimate expected loss for each of these matters. Events could occur that would cause the estimate of the ultimate loss to differ materially from the amounts recorded.

In 2012, ASH recorded an accrued liability of approximately $780 for the estimated cost of surgeries to replace a recalled hip implant product ("revision surgeries"). ASH has received denials from third-party payors for the revision surgeries performed and anticipates having to perform additional revision surgeries that will result in no reimbursement. As at December 31, 2015, this accrued liability had decreased to $533.

20. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Centers.

20.1 Functional and presentation currency

The Corporation's financial statements are reported in U.S. dollars which is its functional and presentation currency. All financial information presented in U.S. dollars has been rounded to the nearest thousand, unless otherwise indicated.

The Corporation translates monetary assets and liabilities denominated in Canadian dollars, principally its convertible debentures, exchangeable interest liability and certain of its cash balances, which are all denominated in Canadian dollars, at exchange rates in effect at the reporting date. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations were incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses, including translation adjustments, are included in the determination of net income.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.2 Basis of consolidation

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation (a) has the power over the entity, (b) is exposed, or has rights, to variable returns from its involvement with the entity, and (c) has the ability to use its power to affect its returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Non-controlling interest represents the portion of a subsidiary's net earnings and net assets that are attributable to shares of such subsidiary not held by the Corporation. The non-controlling interest in the equity of the Corporation's subsidiaries is included as a separate component of equity.

All intra-company balances and transactions have been eliminated in preparing these consolidated financial statements. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Corporation.

20.3 Business combinations

Business combinations are accounted for using the acquisition method as of the date when control is transferred to the Corporation. The Corporation measures goodwill as the excess of the sum of the fair value of the consideration transferred over the net identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Transaction costs that the Corporation incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in net income.

At the date of the acquisition, the non-controlling interest is measured at the non-controlling interest's proportionate share of the fair value of identifiable assets of the acquiree. Contingent consideration in respect of those acquisitions, accounted for as exchangeable interest liability, is recorded on the balance sheet with periodic changes in fair value of that liability reflected in net income.

20.4 Segment information

The operations and productive capacity of the Centers revolve around the provision of surgical procedures. Each Center is organized as an individual entity and separate financial statements are prepared for each entity. The chief operating decision makers of the Corporation, being the Chief Executive Officer and the Chief Financial Officer, regularly review performance of each individual Center to make decisions about resources to be allocated to each Center and assess their performance. Therefore, each Center represents an operating segment as defined by IFRS 8 *Operating Segments*.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management of the Corporation has concluded that the operating segments of the Corporation meet the criteria for aggregation pursuant to IFRS 8, paragraph 12 and, therefore, discloses a single reportable segment. In forming its conclusion about the aggregation of the Centers, management of the Corporation evaluated the long-term economic characteristics of each Center, the comparative nature of the Centers' operations, and the level of regulation of each Center.

The service delivered by each Center and the patients who use those services are similar. The vast majority of patients are insured through private insurance or government insurance programs (i.e., Medicaid or Medicare), which allows for a wide group of patients electing to have their procedures performed at one of the Centers. The Centers principally provide surgical facilities, support staff and pre- and post-surgical care related to surgeries. Finally, the Centers have similar economic characteristics, which management defines as comparable long-term operating margins, recognizing differences between the Centers in payor mix, surgical specialties and local healthcare markets.

20.5 Discontinued operations

A discontinued operation is a component of the Corporation's business which can be clearly distinguished from the rest of the Corporation, both operationally and for financial reporting purposes. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of comprehensive income are re-presented as if the operation has been discontinued from the start of the comparative year. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount net of tax as net income from discontinued operations in the statement of comprehensive income.

20.6 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and all liquid investments purchased with a maturity of three months or less from the purchase date and which can be redeemed by the Corporation.

20.7 Short-term and long-term investments

Investments represent liquid investments purchased with a maturity of three months or more. Investments with maturities of more than three months but less than twelve months are classified as short-term and investments with maturities of twelve months or more are classified as long-term. The Corporation limits its exposure to credit risk through application of its investment policy. The policy permits investment of its cash and cash equivalents and short-term and long-term investments in (i) liquid securities issued or guaranteed by the Governments of Canada and the United States of America, or political subdivisions thereof and with (ii) certain Canadian chartered banks or banks regulated by the United States of America as listed in the policy. The carrying amount of investments represents the Corporation's maximum exposure to credit risk for such investments.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.8 Accounts receivable

Accounts receivable are recorded at the time services are rendered at the amounts estimated to be recoverable from third-party payors and patients, by applying the following policies:

(i) Amounts billed are reduced by an allowance for third-party payor adjustments which are maintained at a level management believes reflects the estimated adjustments that will be applied upon collection of the amounts billed. The allowance is established using the third-party payor contracts effective at period end and/or based on historical payment rates.

(ii) An allowance for non-collectible receivable balances is recognized at a level management believes is adequate to absorb probable losses. Management determines the adequacy of the allowance based on historical data, current economic conditions, and other pertinent factors for the respective Center. Patient receivables are written off as non-collectible when all reasonable collection efforts have been exhausted.

Payments from third-party payors are generally received within 60 days of the billing date. However, accounts involving non-contracted payment sources, such as auto and general liability insurance, are subject to recovery efforts, including rebilling and insurance litigation, until they are collected or considered not collectible. Residual amounts due from patients, such as co-payments and deductibles, are considered past due 30 days after receiving payment from third-party payors.

20.9 Supply inventory

Supply inventory consists of medical supplies, including implants and pharmaceuticals. It is stated at the lower of cost or net realizable value, using the first-in, first-out valuation method.

20.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation of property and equipment is computed using the straight-line and declining balance methods over the estimated useful lives of the assets. Assets under finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Centers will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property and equipment are as follows:

Building and improvements	3-40 years
Equipment and furniture	3-20 years

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases that substantially transfer the risk and benefits of ownership are capitalized with the cost included in property and equipment and the related liability recorded in long-term debt.

Depreciation methods, useful lives and residual values are reviewed on an annual basis.

20.11 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of cost over the fair value of identifiable net assets acquired. For business acquisitions occurring after the date of transition to IFRS (January 1, 2010), goodwill is also recognized on non-controlling interest. Goodwill is stated at cost less accumulated impairment losses. Goodwill is not amortized but is reviewed at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

20.12 Other intangibles

Other intangibles are recognized only when it is probable that the expected future economic benefits attributable to the assets will be realized by the Corporation and the cost can be reliably measured. Other intangibles represent the value of the hospital operating licenses, medical charts and records, referral sources, and trade names. Other intangibles are stated at cost less accumulated amortization and accumulated impairment losses, when applicable.

Upon recognition of an intangible asset, the Corporation determines if the asset has a definite or indefinite life. In making the determination, the Corporation considers the expected use, expiry of agreements, nature of assets, and whether the value of the assets decreases over time.

Amortization is recognized on a straight-line basis over the estimated useful lives of other intangibles, other than trade names, from the date they are available for use. The estimated useful lives of other intangibles are as follows:

Hospital operating licenses	5 years
Medical charts and records	5-10 years
Referral sources	10-15 years

Trade names represent the value assigned to the reputation of the hospitals and their standing in the business and local community which allow them to earn higher than average returns. Trade names are not amortized as there is no foreseeable limit to the period over which trade names are expected to generate cash inflows for the Corporation.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.13 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 a definite useful life which are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the CGU level, which is the lowest level for which there are separately identifiable cash flows. Management considers each Center as a CGU.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount 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.

An impairment loss is recognized in net income. It is allocated first to reduce the carrying amount of any goodwill allocated to the respective Center and, then, to reduce the carrying amount of the other assets of the respective Center on a pro rata basis.

20.14 Financial assets and liabilities

The Corporation initially recognizes financial assets on the date that they originate or on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Corporation assesses financial assets for impairment at each reporting date.

The Corporation initially recognizes financial liabilities on the date that they originate or on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

All financial assets and liabilities are initially recorded at fair value and designated into one of the following categories:

(i) Fair value through profit or loss ("FVTPL")

Cash and cash equivalents, certain short-term investments, foreign exchange forward contracts, convertible debentures and exchangeable interest liability are designated as FVTPL and are carried at fair value with unrealized gains or losses recognized through net income.

(ii) Held-to-maturity

Certain short-term and long-term investments are designated as held-to-maturity and are carried at amortized cost using the effective interest rate method.

(iii) Loans and receivables

Accounts receivable and other assets are designated as loans and receivables and are carried at amortized cost using the effective interest rate method.

(iv) Other liabilities

Dividends payable, accounts payable, accrued liabilities and long-term debt are designated as other liabilities and are carried at amortized cost using the effective interest rate method.

20.15 Impairment of non-derivative financial assets

Financial assets not designated as FVTPL, including interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

20.15.1 Financial assets measured at amortized cost

The Corporation considers evidence of impairment for financial assets measured at amortized cost on both an individual and collective basis. In assessing impairment, the Corporation uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income and reflected in an allowance account. If the amount of an impairment loss subsequently decreases, then the amount is reversed through net income.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.15.2 Equity-accounted investee

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in net income and is reversed if there has been a favourable change in the estimates used to calculate that recoverable amount.

20.16 Measurements of fair value

A number of the Corporation's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Corporation has an established control framework with respect to the measurement of fair values. The valuation of all fair value measurements is overseen directly by the Chief Financial Officer. Management of the Corporation regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from these sources to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Corporation uses observable market data to the extent possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

Level 1 – unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Corporation recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.17 Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the estimated expenditures required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values where the time value of money is material. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

20.18 Convertible debentures

The Corporation's convertible debentures are convertible into a fixed number of common shares at the option of the holder. The number of common shares to be issued does not vary with changes in the market value of the convertible debentures.

The convertible debentures are denominated in Canadian dollars while the Corporation's functional currency is U.S. dollars, which requires the Corporation to deliver a variable amount of cash to settle the obligation. Because the conversion option requires the Corporation to deliver a fixed number of common shares to settle a variable liability, the convertible debentures are considered hybrid financial instruments. The Corporation elected to account for the convertible debentures as financial liability measured at FVTPL. The changes in the recorded amounts of the liability, resulting from the changes in the fair value of the convertible debentures and fluctuations in foreign exchange rates between the periods, are reflected in net income.

20.19 Exchangeable interest liability

Exchangeable interest liability represents an estimated liability for the remaining portion of the interest in the Centers held by the non-controlling interest which can be exchanged, subject to certain restrictions, for common shares of the Corporation. The exchangeable interest liability has been designated as FVTPL and accordingly is re-measured at the end of each reporting period taking into account (i) the calculated amount of common shares potentially issuable for the remaining portion of the exchangeable interest in the Centers held by the non-controlling interest, (ii) the market value of common shares, and (iii) the exchange rate between Canadian and U.S. dollars at the end of the reporting period. The change in value of the exchangeable interest liability is included in net income for the respective periods.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.20 Facility service revenue

Facility service revenue consists of the actual amounts received and the estimated net realizable amounts receivable from patients and third-party payors. Facility service revenue is derived from the provision of the facilities and ancillary services for the performance of scheduled (as opposed to emergency) surgical, imaging, and diagnostic procedures. The Centers bill either their patients or the patients' third-party payors as of the date of service upon completion of the procedure. Facilities service revenue is recognized as of the date of the service when the recovery of consideration is probable and the Corporation is satisfied with the performance objectives.

A small amount of facility service revenue is received directly from self-paying patients while the majority of facility service revenue is received from third-party payors that provide insurance and coverage to patients. Each Center has agreements with third-party payors that provide for payments at amounts different from the Center's established rates. Payment arrangements include pre-determined rates per diagnosis, reimbursed costs, discounted charges, and per diem payments. As a result of established agreements with third-party payors, settlements under reimbursement arrangements are determined with a high degree of accuracy and are accrued on an estimated basis in the period the services are rendered, and are adjusted in future periods, as final settlements are determined. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the period of settlement.

20.21 Income taxes

Income tax expense consists of current and deferred taxes. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to a business combination or items recognized directly in equity, in which case it is recognized in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

The Corporation calculates deferred income taxes using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted at the end of the reporting period. The effect on tax assets and liabilities of a change in tax rates is recognized in net income in the period that includes the date of enactment or substantive enactment.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are always recognized in full. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis. Deferred tax is provided on temporary differences arising on investments in subsidiaries, expect where the timing of the reversal of temporary differences is controlled by the Corporation and it is probable that the temporary differences will not reverse in the foreseeable future.

20.22 New and revised IFRS not yet adopted

The Corporation has not applied the following new and revised IFRS that have been issued but are not yet effective:

20.22.1 IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the complete IFRS 9 *Financial Instruments* ("IFRS 9 (2014)"). The mandatory effective date of IFRS 9 (2014) 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 (2014) in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

20.22.2 IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 *Construction Contracts*, IAS 18 *Revenue*, and the related Interpretations when it becomes effective. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Corporation intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.22.3 IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16 *Leases*, which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding right of use asset on the balance sheet. There are minimal changes to lessor accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 *Revenue from Contracts with Customers* has been adopted. The Corporation intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

21. USE OF JUDGMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, facility service revenue, and expenses. Management uses historical experience and various other factors it believes to be reasonable under the circumstances as the basis for its judgments and estimates. Actual results may differ from these estimates. Such differences in estimates are recognized when realized on a prospective basis.

21.1 Judgments

Information about management’s judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes: (i) functional currency (discussed in note 20.1), (ii) consolidation of investees (discussed in note 20.2), (iii) segment information (discussed in note 20.4), (iv) discontinued operations (discussed in notes 4 and 20.5), (v) classification of leases (discussed in note 20.10), and (vi) recognition of deferred tax assets and liabilities (discussed in notes 15 and 20.21).

21. USE OF JUDGMENTS AND ESTIMATES (Continued)

21.2 Estimates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2015 is included in the following notes: (i) timing of recognition of facility service revenue (discussed in note 20.20) and recovery of accounts receivable (discussed in notes 12.5.2 and 20.8), (ii) valuation of supply inventory (discussed in note 20.9), (iii) useful lives of property and equipment (note 20.10) and other intangibles (note 20.12), (iv) fair value measurements and valuation of financial instruments (discussed in notes 12.4 and 20.16), (v) key assumptions regarding the valuation of acquired and disposed assets and liabilities, primarily goodwill and other intangibles (discussed in notes 4.2 and 6), (vi) impairment test, including key assumptions underlying the recoverable amounts of goodwill and other intangibles (discussed in notes 6.3 and 20.13), (vii) provision for potential liabilities and contingencies and the assessment of the likelihood and magnitude of outflow of resources (discussed in note 19) and (viii) recognition of deferred tax assets and the availability of future income against which carry forward tax losses can be used (discussed in notes 15 and 20.21).

22. SUBSEQUENT EVENT

On January 14, 2016, the Corporation acquired a 51% controlling interest in Integrated Medical Delivery, L.L.C. (“IMD”) for a cash purchase price of $1,750. IMD is a diversified healthcare service company located in Oklahoma City, Oklahoma that provides third-party business solutions to healthcare entities such as physicians, facilities, and insurance companies.

Investor Information
Shareholders or other interested parties seeking information about the Company are invited to contact:
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Annual Meeting
May 12, 2016 at 2:00 pm ET
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Stock Exchange Listing
The Toronto Stock Exchange
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Convertible Debentures: DR.DB.A

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