MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTHS AND YEAR ENDED DECEMBER 31, 2016

March 22, 2017

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, 2016, 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, 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 (both of which are 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 8 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 and certain non-cash adjustments, 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 calculates 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.

- **Distributions** is a non-IFRS financial measure of cash distributed to holders of common shares, more commonly referred to as dividends.

- **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. and Medical Facilities (USA) Holdings, Inc., the

Corporation owns controlling interests in, and/or controls by virtue of the power to govern, and derives substantially all of its income from, seven limited liability entities (each a "Center" and, collectively, the "Centers"), six of which own either a specialty surgical hospital (an "SSH") or an ambulatory surgery center (an "ASC"). The SSHs are located in Arkansas, Indiana, Oklahoma, and South Dakota, 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 staffing, surgical materials and supplies, and other support necessary for scheduled surgical, pain management, imaging, and diagnostic procedures and derive their revenue primarily from the fees charged for the use of these facilities. The Centers mainly focus on a limited number of clinical specialties such as orthopedic, neurosurgery, pain management and other non-emergency elective procedures. In addition, two of the SSHs provide primary and urgent care to their communities.

On October 3, 2016, Sioux Falls Specialty Hospital, LLP ("SFSH"), a subsidiary of the Corporation, acquired 100% of Prairie States Surgical Center, L.L.C. ("PSSC") which owns and operates Prairie States Surgical Center located in Sioux Falls, South Dakota. PSSC was acquired for a purchase price of $20,281, consisting of $4,309 consideration in cash and $15,972 of seller financing, which is required to be paid in equal instalments over a period of five years. PSSC is an 8,000 square foot facility with two operating rooms focused on providing facilities for orthopedic procedures, and has been integrated into the operations of SFSH. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of PSSC are included in the consolidated financial statements through the Corporation's consolidation of SFSH.

On September 23, 2016, the Corporation acquired a 62% controlling interest in Unity Medical and Surgical Hospital ("UMASH"), a medical and surgical hospital located in Mishawaka, Indiana, for a cash purchase price of $27,750, which was funded by a draw on the Corporation's credit facility. UMASH is a 50,000 square foot, 29-bed Medicare-certified facility with four surgical and two special procedure suites focused on providing facilities for orthopedic, ophthalmology, podiatry, pain management, and spine surgery procedures. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of UMASH are included in the financial statements with the non-controlling portion reflected in non-controlling interest.

Black Hills Urgent Care, a 100% subsidiary of Black Hills Surgical Hospital, LLP ("BHSH") a subsidiary of the Corporation, expanded its operations to a third location located in Spearfish, South Dakota, approximately 50 miles from Rapid City. The new urgent care facility opened in September 2016. Total project costs for the land and new building were $4,325. The lower level of the facility houses urgent care with seven exam rooms, a digital x-ray machine, and lab. The upper level is occupied by various specialists who serve patients in the Spearfish market region, including the Northwestern Black Hills area, Eastern Wyoming and Eastern Montana. On December 23, 2016, the net assets of the Spearfish location were transferred from BHSH to a newly created entity, Mountain Plains Real Estate Holdings, LLC ("MPREH") at carrying value. The Corporation has significant influence over the associate, MPREH, because of its equity position and because it has representation on its board. The Corporation uses the equity method to account for this investment which was valued at $678 as of December 31, 2016.

On July 13, 2016, RRI Mishawaka Hospital, LP ("RRIMH") purchased the real estate assets underlying UMASH, consisting of land and building, for $27,387. RRIMH is a limited partnership in which the Corporation has an 84% interest and the remaining 16% interest in the partnership is held directly and indirectly by Rainier Realty Investments, LP, a third party. By virtue of the Corporation having the power to govern this entity, the Corporation consolidates the results of operations and the financial position of

this partnership in its financial statements. The purchase of the real estate assets was funded solely by a loan from the Corporation. The Corporation funded the loan from its available cash and a $20,000 draw on its credit facility.

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 physician practices, facilities, and insurance companies. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of IMD are included in the consolidated financial statements.

Facility service revenue (“revenue”) and certain directly related expenses are subject to seasonal fluctuations due to the timing of case scheduling, which can be impacted by the vacation schedules of surgeons, as well as the extent to which patients have remaining deductibles on their insurance coverage, based on the time of year. Occupancy related expenses, certain operating expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

Revenue for any given period is dependent on the volume of the procedures performed as well as the acuity and complexity of the procedures (“case mix”) and composition of payors (“payor mix”), including federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Various payors have different reimbursement rates for the same type of procedure which are generally based on either predetermined rates per procedure or discounted fee-for-service rates. Medicare and Medicaid typically have lower reimbursement rates than other payors.

Revenue is recorded in the period when healthcare services are provided based upon established billing rates less adjustments required by contractual arrangements with the payors. Estimates of contractual adjustments under payor arrangements are based upon the payment terms specified in the related contractual agreements and payment history.

The volume of procedures performed at the 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) the Centers’ establishment and maintenance of strong 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 Arkansas, Oklahoma, and South Dakota, 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 liability associated with this derivative instrument is recorded on the consolidated balance sheet. The non-controlling interest owners of several Centers have exercised portions of their exchangeable interests.

Summary of Center Information as of December 31, 2016

	Arkansas Surgical Hospital ("ASH")	Unity Medical and Surgical Hospital ("UMASH")	Oklahoma Spine Hospital ("OSH")	Black Hills Surgical Hospital ("BHSH")	Sioux Falls Specialty Hospital ("SFSH")	The Surgery Center of Newport Coast ("SCNC")
Location	North Little Rock Arkansas	Mishawaka Indiana	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California
Year Opened	2005	2009	1999	1997	1985	2004
Year Acquired by the Corporation	2012	2016	2005	2004	2004	2008
Ownership Interest	51.0%	62.0%	60.3%	54.2%	51.0%	51.0%
Non-controlling Interest	49.0%	38.0%	39.7%	45.8%	49.0%	49.0%
Exchangeable Interest	5.0%	-	4.7%	10.8%	14.0%	-
Size	126,000 sq ft	50,000 sq ft	61,000 sq ft	75,000 sq ft	76,000 sq ft	7,000 sq ft
Operating Rooms	11	6	7	11	13	2
Overnight Rooms	41(1)	29	25	26	35	-

(1) *Licensed for 49 beds.*

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 the assets related to the operation of its SSH in Aberdeen, South Dakota. The transaction was completed on September 30, 2015 for net proceeds of $33.8 million. For the year ended December 31, 2016 and December 31, 2015, results for DPSC are presented in "Income from discontinued operation" in the statement of income and comprehensive income. For additional information on the discontinued operation, please see Note 8 in the Corporation's financial statements.

5. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information from Continuing Operations

	Years Ended December 31,		
In thousands of U.S. dollars, except per share amounts and as indicated otherwise	**2016**	**2015**	**2014**
Facility service revenue	339,472	308,778	297,382
Operating expenses	271,399	234,086	230,695
Income from operations	68,073	74,692	66,687
Income for the year from continuing operations	39,688	70,179	51,151
Attributable to:			
Owners of the Corporation	9,750	37,018	21,245
Non-controlling interest(1)	29,938	33,161	29,906
Earnings per share attributable to owners of the Corporation from continuing operations			
Basic	$ 0.31	$ 1.18	$ 0.68
Fully diluted	$ 0.30	$ 0.53	$ 0.51
Cash available for distribution(2)	C$ 50,655	C$ 45,853	C$ 41,366
Distributions(2)	C$ 34,929	C$ 35,186	C$ 35,261
Cash available for distribution per common share(2)	C$ 1.631	C$ 1.466	C$ 1.320
Distributions per common share(2)	C$ 1.125	C$ 1.125	C$ 1.125
Payout ratio(2)	69.0%	76.7%	85.2%

	At December 31, 2016	At December 31, 2015	At December 31, 2014
Total assets	492,461	382,952	409,709
Total long-term financial liabilities(3)	135,946	58,194	71,799

[(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, does not vary significantly between the periods. 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 measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures and to Section 8 under the heading "Reconciliation of Non-IFRS Financial Measures" for a reconciliation to the equivalent IFRS measure.

[(3)] Consists of Corporate credit facility, long-term debt and convertible debentures.

Selected Financial Information from Continuing Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

For the year ended December 31, 2016, revenue was $339.5 million, an increase of 9.9% from $308.8 million for the same period in 2015 as growth at all existing Centers and the impact of the acquisitions during the year of UMASH, PSSC, and IMD contributed an additional $30.7 million to the revenues. Income from operations decreased by 8.9% to $68.1 million, or 20.1% of revenue, compared to $74.7 million, or 24.2% of revenue, in 2015. Income for the year from continuing operations was $39.7 million compared to $70.2 million in 2015, with the decrease mainly attributable to the increase in the values of exchangeable interest liability and convertible debentures (refer to Section 6 "Consolidated Operating and Financial Review" of this MD&A under headings "Change in Value of Exchangeable Interest Liability" and "Change in Value of Convertible Debentures" for the year ended December 31, 2016), and lower income from operations, partially offset by lower income taxes and foreign exchange losses. The Corporation generated cash available for distribution of Cdn$50.7 million, representing an increase of 10.5% from Cdn$45.9 million in the prior year. Distributions per common share remained consistent between the years at Cdn$1.125, while the payout ratio was 69.0% compared to 76.7% for the year ended December 31, 2015. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 8 under the heading "Reconciliation of Non-IFRS Financial Measures".

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.

6. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

Three Months Ended December 31, 2016

The following table and discussion compare operating and financial results of the Corporation from continuing operations for the three months ended December 31, 2016 to the three months ended December 31, 2015.

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars, except per share amounts	2016	2015	$ Change	% Change
Facility service revenue	**107,994**	**89,760**	**18,234**	**20.3%**
Operating expenses				
Salaries and benefits	27,949	22,145	5,804	26.2%
Drugs and supplies	31,619	24,138	7,481	31.0%
General and administrative expenses	16,162	9,768	6,394	65.5%
Depreciation of property and equipment	2,805	2,119	686	32.4%
Amortization of other intangibles	4,156	3,796	360	9.5%
	82,691	**61,966**	**20,725**	**33.4%**
Income from operations	**25,303**	**27,794**	**(2,491)**	**(9.0%)**
Finance costs				
Decrease in value of convertible debentures	(4,495)	(2,077)	(2,418)	(116.4%)
Decrease in value of exchangeable interest liability	(21,707)	(8,249)	(13,458)	(163.2%)
Interest expense on exchangeable interest liability	2,181	2,263	(82)	(3.6%)
Interest expense, net of interest income	1,745	753	992	131.7%
Loss on foreign currency	284	293	(9)	(3.1%)
	(21,992)	**(7,017)**	**(14,975)**	**(213.4%)**
Income before income taxes	**47,295**	**34,811**	**12,484**	**35.9%**
Income tax expense	8,584	9,500	(916)	(9.6%)
Income for the period from continuing operations	**38,711**	**25,311**	**13,400**	**52.9%**
Attributable to:				
Owners of the Corporation	28,111	13,343	14,768	106.8%
Non-controlling interest	10,600	11,968	(1,368)	(11.4%)
Basic earnings per share attributable to owners of the Corporation from continuing operations	$ 0.91	$ 0.43	$ 0.48	111.6%
Fully diluted earnings per share attributable to owners of the Corporation from continuing operations	$ 0.31	$ 0.22	$ 0.09	40.9%

Revenue

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	2016	2015	$ Change	% Change
ASH	17,167	17,447	(280)	(1.6%)
UMASH	13,340	-	13,340	-
OSH	18,488	17,625	863	4.9%
BHSH	25,222	22,539	2,683	11.9%
SFSH	30,787	29,988	799	2.7%
SCNC	2,364	2,161	203	1.1%
RRIMH	550	-	550	-
IMD	1,269	-	1,269	-
Intercompany eliminations	(1,193)	-	(1,193)	-
Facility service revenue	**107,994**	**89,760**	**18,234**	**20.3%**

For the three months ended December 31, 2016, consolidated revenue of $108.0 million increased by $18.2 million or 20.3% from the same period in 2015, primarily due to new revenues from acquisitions during the year of $16.3 million, consisting of incremental revenues from UMASH, PSSC and IMD, (the

“acquisitions”) including eliminations for intercompany revenues, along with higher case volume at the pre-existing operations ($4.7 million), better case mix and annual price increases ($1.6 million), and increases from the new Urgent Care and Ear Nose Throat (“ENT”) clinics at BHSH ($0.7 million), which were partially offset by changes to payor mix ($1.7 million) and higher bad debt expenses ($0.8 million).

Total surgical cases increased by 1,045 cases or 11.9%, with inpatient and outpatient cases going up by 10.3% and 13.3%, respectively. Pain management procedures increased by 4.5%. Case growth over the same period last year came predominantly from Blue Cross/Blue Shield (15.2%) and Medicare (15.8%) cases.

Excluding the incremental impact of acquisitions, surgical case volume was up 2.2%, as UMASH and PSSC contributed 5.5% and 4.2% of the total case growth.

The above factors are reflected in each subsidiary’s revenue as follows:

- ASH recorded a decrease in revenue based mainly on lower case volumes.

- UMASH contributed revenue to the overall increase for the full three month period as it was acquired on September 23, 2016.

- OSH’s revenue increased mainly due to higher case volume.

- BHSH recorded an increase in revenue primarily due to the increase in case volume, case mix, the new Urgent Care and ENT clinics, which were offset partially by payor mix.

- SFSH’s revenue increase was due to higher case volumes from both the pre-existing operations and the newly acquired PSSC, which were offset partially by payor mix and bad debt.

- SCNC’s revenue increased due to case mix attributable to increased complex orthopedic cases and stimulator cases as well as better payor mix, which were partially offset by lower case volume.

- RRIMH contributed revenue which was fully eliminated.

- IMD contributed to revenue growth, net of intercompany eliminations, as it was a new acquisition in 2016.

- The intercompany revenue elimination relates primarily to IMD’s service revenue from OSH and RRIMH’s rental revenue from UMASH.

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 $82.7 million, an increase of $20.7 million or 33.4%. As a percentage of revenue, operating expenses increased to 76.6% from 69.0% in the same period a year earlier.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2016**	**Percentage of Revenue**	**2015**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	13,243	77.1%	9,829	56.3%	3,414	34.7%
UMASH	11,762	88.2%	-	-	11,762	-
OSH	14,222	76.9%	13,648	77.4%	574	4.2%
BHSH	16,806	66.6%	14,003	62.1%	2,803	20.0%
SFSH	18,621	60.5%	16,958	56.5%	1,663	9.8%
SCNC	1,716	72.6%	1,636	75.8%	80	4.9%
RRIMH	176	32.1%	-	-	176	-
IMD	1,142	90.0%	-	-	1,142	-
Corporate and intercompany eliminations	5,003	n/a	5,892	n/a	(889)	(15.1%)
Operating expenses	**82,691**	**76.6%**	**61,966**	**69.0%**	**20,725**	**33.4%**

Consolidated salaries and benefits increased by $5.8 million or 26.2%. Salaries and benefits at the Center level increased primarily due to acquisitions ($5.3 million), the new Urgent Care and ENT clinics at BHSH ($0.7 million), higher benefits costs ($0.3 million), annual salary rate increases ($0.4 million), and higher case volume and staffing levels ($0.3 million). As a percentage of revenue, consolidated salaries and benefits increased to 25.9% from 24.7% a year earlier.

Consolidated drugs and supplies increased by $7.5 million or 31.0% primarily due to acquisitions ($4.5 million), higher case volumes ($1.0 million), and case mix changes ($0.8 million). As a percentage of revenue, the consolidated cost of drugs and supplies grew to 29.3% from 26.9% a year earlier due to price increases and changes in case mix.

Consolidated general and administrative expenses ("G&A") increased by $6.4 million or 65.5%. The increase in G&A was mainly attributable to acquisitions ($3.4 million), the non-cash reversal of accrued rent liability by ASH ($2.7 million) in the prior year, the new Urgent Care clinic at BHSH ($0.3 million), and professional fees ($0.3 million). As a percentage of revenue, consolidated G&A increased to 15.0% from 10.9% a year earlier.

Consolidated depreciation of property and equipment was higher, increasing by $0.7 million or 32.4% primarily due to acquisitions. As a percentage of revenue, consolidated depreciation of property and equipment marginally increased to 2.6% from 2.4% a year earlier.

Consolidated amortization of other intangibles increased by $0.4 million or 9.5% primarily due to amortization relating to the acquisitions in the year offset partly by the full amortization of certain intangible assets. As a percentage of revenue, consolidated amortization of other intangibles declined to 3.8% from 4.2% a year earlier.

Income from Operations

Consolidated income from operations for the three months ended December 31, 2016 of $25.3 million was $2.5 million or 9.0% lower than consolidated income from operations of $27.8 million, recorded a year earlier, representing 23.4% of revenue compared to 31.0% in 2015. The decline in consolidated income from operations is the result of increases in operating expenses exceeding increases in revenue at several Centers. Normalized for the non-cash reversal of an accrued rent liability by ASH ($2.7 million) a year earlier, the variance would have been an increase of $0.2 million or 0.7%.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2016**	**Percentage of Revenue**	**2015**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	3,924	22.9%	7,618	43.7%	(3,694)	(48.5%)
UMASH	1,577	11.8%	-	-	1,577	-
OSH	4,266	23.1%	3,977	22.6%	289	7.3%
BHSH	8,415	33.4%	8,536	37.9%	(121)	(1.4%)
SFSH	12,165	39.5%	13,030	43.4%	(865)	(6.6%)
SCNC	649	27.4%	525	24.2%	124	23.6%
RRIMH	374	67.9%	-	-	374	-
IMD	127	10.0%	-	-	127	-
Corporate	(6,195)	n/a	(5,892)	n/a	(303)	(5.1%)
Income from operations	**25,302**	**23.4%**	**27,794**	**31.0%**	**(2,492)**	**(9.0%)**

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 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 a calculation of the change in fair value of convertible debentures for the reporting periods:

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2016**	**September 30, 2016** *Unaudited*	**Change**	**December 31, 2015**	**September 30, 2015** *Unaudited*	**Change**
Face value of convertible debentures outstanding	C$41,743	C$41,743	-	C$41,743	C$41,755	(C$12)
Closing price of convertible debentures outstanding	C$103.26	C$115.00	(C$11.74)	C$101.50	C$104.51	(C$3.01)
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.3427	C$1.3117	C$0.031	C$1.3840	C$1.3345	C$0.0495
Market value of convertible debentures outstanding	**32,102**	**36,597**	**(4,495)**	**30,614**	**32,700**	**(2,086)**
Repurchase of convertible debentures under normal course issuer bid			-			9
Change in value of convertible debentures			**(4,495)**			**(2,077)**

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, and re-measured at each reporting date, and the changes in fair value are included in net income for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the (i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest 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 a calculation of the change in value of exchangeable interest liability for the reporting periods:

In thousands of U.S. dollars, except as indicated otherwise	December 31, 2016	September 30, 2016 *Unaudited*	Change	December 31, 2015	September 30, 2015 *Unaudited*	Change
Number of common shares to be issued for exchangeable interest liability attributable to continuing operations	5,886,925	5,908,674	(21,749)	5,932,340	5,940,296	(7,956)
Closing price of the Corporation's common shares	C$17.57	C$21.92	(C$4.35)	C$14.39	C$15.71	(C$1.32)
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.3427	C$1.3117	C$0.031	C$1.3840	C$1.3345	C$0.0495
Exchangeable interest liability	**77,034**	**98,741**	**21,707**	**61,681**	**69,930**	**(8,249)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $0.1 million primarily due to the variation in distributions from the Centers between the reporting periods.

Interest Expense

Interest expense, net of interest income was up $1.0 million due mainly to the outstanding balance payable on the corporate credit facility representing the funds borrowed to finance new acquisitions and incremental interest expense on debt residing in the recently acquired UMASH.

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. Foreign currency losses were consistent with the same period in 2015.

Income Tax

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

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	2016	2015	$ Change	% Change
Current income tax expense	1,000	2,801	(1,801)	(64.3%)
Deferred income tax expense	7,584	6,699	885	14.9%
Income tax expense	**8,584**	**9,500**	**(916)**	**(9.6%)**

The decrease in current income tax expense versus last year was mainly due to higher public company expense deductions versus prior year. The deferred income tax expense versus the prior year was primarily attributable to the tax effect of the change in exchangeable interest liability, and accumulated immaterial prior period adjustments to the U.S. deferred tax asset.

Income from Continuing Operations

A $13.4 million increase in income from continuing operations was primarily due to decreases in the values of the exchangeable interest liability and convertible debentures, offset partially by lower income from operations.

Year Ended December 31, 2016

The following table and discussion compare operating and financial results of the Corporation from continuing operations for the year ended December 31, 2016 to the year ended December 31, 2015.

	Years Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2016**	**2015**	**$ Change**	**% Change**
Facility service revenue	**339,472**	**308,778**	**30,694**	**9.9%**
Operating expenses				
Salaries and benefits	95,774	80,223	15,551	19.4%
Drugs and supplies	99,632	84,810	14,822	17.5%
General and administrative expenses	53,362	44,995	8,367	18.6%
Depreciation of property and equipment	9,255	8,909	346	3.9%
Amortization of other intangibles	13,376	15,149	(1,773)	(11.7%)
	271,399	**234,086**	**37,313**	**15.9%**
Income from operations	**68,073**	**74,692**	**(6,619)**	**(8.9%)**
Finance costs				
Increase (decrease) in value of convertible debentures	1,488	(7,353)	8,841	120.2%
Increase (decrease) in value of exchangeable interest liability	15,353	(30,036)	45,389	151.1%
Interest expense on exchangeable interest liability	8,616	9,172	(556)	(6.1%)
Interest expense, net of interest income	4,258	3,024	1,234	40.8%
Loss (gain) on foreign currency	(336)	4,987	(5,323)	(106.7%)
	29,379	**(20,206)**	**49,585**	**245.4%**
Income before income taxes	**38,694**	**94,898**	**(56,204)**	**(59.2%)**
Income tax expense (recovery)	(994)	24,719	(25,713)	(104.0%)
Income for the year from continuing operations	**39,688**	**70,179**	**(30,491)**	**(43.4%)**
Attributable to:				
Owners of the Corporation	9,750	37,018	(27,268)	(73.7%)
Non-controlling interest	29,938	33,161	(3,223)	(9.7%)
Basic earnings per share attributable to owners of the Corporation from continuing operations	$ 0.31	$ 1.18	($ 0.87)	(73.7%)
Fully diluted earnings per share attributable to owners of the Corporation from continuing operations	$ 0.30	$ 0.53	($ 0.23)	(43.4%)

Revenue

	Years Ended December 31,			
In thousands of U.S. dollars	**2016**	**2015**	**$ Change**	**% Change**
ASH	67,350	63,061	4,289	6.8%
UMASH	14,203	-	14,203	-
OSH	63,544	63,363	181	0.3%
BHSH	85,586	78,749	6,837	8.7%
SFSH	97,562	95,773	1,789	1.9%
SCNC	8,011	7,832	179	2.3%
RRIMH	1,077	-	1,077	-
IMD	5,708	-	5,708	-
Intercompany eliminations	(3,569)	-	(3,569)	-
Facility service revenue	**339,472**	**308,778**	**30,694**	**9.9%**

For the year ended December 31, 2016, consolidated revenue of $339.5 million increased by $30.7 million or 9.9% over the year 2015. Consolidated revenue growth was attributable to new acquisitions ($17.4 million) including eliminations for intercompany revenues, higher case volumes which generated an additional revenue of $14.5 million, and improved case mix impact of $6.9 million, partly offset by a decline from payor mix of $10.1 million and higher bad debt expense of $1.6 million.

Total surgical cases increased by 7.6%, with outpatient cases up 7.8% and inpatient cases up 7.9%, while total pain management procedures decreased slightly by 0.6%. Excluding the incremental impact of the UMASH and PSSC acquisitions, case volume increased by 4.7%.

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

- ASH recorded growth in case volumes and favourable changes in case mix as growth in inpatient cases outpaced growth in outpatient cases.
- UMASH contributed revenue to the overall increase from the date of its acquisition on September 23, 2016.
- OSH's revenue increased slightly due to growth in case volumes which was mostly offset by payor mix as Medicare cases increased.
- BHSH recorded revenue growth due to an increase in case volumes and additional revenue from the new Urgent Care and ENT clinics, partially offset by declines from payor mix.
- SFSH recorded increases from case mix, higher case volumes, and ancillary revenue growth from MRI and pain clinic, mostly offset by payor mix due to a higher proportion of Medicare and like payors.
- SCNC's revenue increased slightly because of improved case and payor mix mostly offset by reduced case volume.
- RRIMH contributed rent revenue to the consolidated results up to the date the Corporation acquired UMASH, after which its revenue was eliminated.
- IMD contributed to revenue growth, as it is a new acquisition in the current year.
- The intercompany revenue eliminations relate to IMD's service revenue from OSH and RRIMH's rental revenue from UMASH.

Operating Expenses

Operating expenses totaled $271.4 million, an increase of $37.3 million or 15.9%. As a percentage of revenue, operating expenses increased to 80.0% from 75.8% in the same period a year earlier.

	Years Ended December 31,					
In thousands of U.S. dollars	**2016**	**Percentage of Revenue**	**2015**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	52,984	78.7%	45,054	71.4%	7,930	17.6%
UMASH	12,510	88.1%	-	-	12,510	-
OSH	53,376	84.0%	50,941	80.4%	2,435	4.8%
BHSH	59,693	69.7%	53,662	68.1%	6,031	11.2%
SFSH	63,896	65.5%	57,035	59.6%	6,861	12.0%
SCNC	6,424	80.2%	6,174	78.8%	250	4.0%
RRIMH	324	30.1%	-	-	324	-
IMD	4,989	87.4%	-	-	4,989	-
Corporate and intercompany eliminations	17,203	n/a	21,220	n/a	(4,017)	(18.9%)
Operating expenses	**271,399**	**80.0%**	**234,086**	**75.8%**	**37,313**	**15.9%**

Consolidated salaries and benefits increased by $15.6 million or 19.4% due mainly to increases at the Center level, while higher salaries at the corporate level were mostly offset by lower retirement allowance. Salaries and benefits at the Center level increased primarily due to acquisitions ($7.4 million), annual wage and salary increases ($2.4 million), higher benefits costs ($1.7 million), increased staffing levels due to case volume ($1.4 million), and the new Urgent Care and ENT clinics at BHSH ($1.1 million). As a percentage of revenue, consolidated salaries and benefits increased to 28.2% from 26.0% a year earlier.

Consolidated drugs and supplies increased by $14.8 million or 17.5%, which was attributable mainly to the acquisition of UMASH ($4.5 million), higher case volumes ($4.0 million), changes in case mix and price inflation ($3.8 million), and increased interoperative service fees at OSH ($0.7 million). As a percentage of revenue, consolidated cost of drugs and supplies increased to 29.3% from 27.5% a year earlier.

Consolidated G&A increased by $8.4 million or 18.6%. The increase in G&A was attributable to a number of factors, most significant of which were the non-cash reversal of accrued rent liability by ASH ($2.7 million) in the prior year, increased professional fees ($2.3 million) stemming partly from transactional legal and consulting fees related to new acquisitions, the incremental impact of acquisitions ($1.9 million), and increases from new Urgent Care and ENT clinics at BHSH ($0.6 million). As a percentage of revenue, consolidated G&A increased to 15.7% from 14.6% a year earlier.

Consolidated depreciation of property and equipment increased by $0.4 million or 3.9% primarily due to acquisition activity offset in part by the expiration of depreciation periods of property and equipment at some of the Centers. As a percentage of revenue, consolidated depreciation of property and equipment declined to 2.7% from 2.9% a year earlier.

Consolidated amortization of other intangibles declined by $1.8 million or 11.7% primarily due to the expiration of amortization periods for certain intangible assets. As a percentage of revenue, consolidated amortization of other intangibles declined to 3.9% from 4.9% a year earlier.

Income from Operations

Consolidated income from operations of $68.1 million was $6.6 million or 8.9% lower than consolidated income from operations recorded a year earlier, representing 20.1% of revenue compared to 24.2% in the same period in 2015.

	Years Ended December 31,					
In thousands of U.S. dollars	**2016**	**Percentage of Revenue**	**2015**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	14,366	21.3%	18,007	28.6%	(3,641)	(20.2%)
UMASH	1,694	11.9%	-	-	1,694	-
OSH	10,168	16.0%	12,422	19.6%	(2,254)	(18.1%)
BHSH	25,893	30.3%	25,087	31.9%	806	3.2%
SFSH	33,665	34.5%	38,738	40.4%	(5,073)	(13.1%)
SCNC	1,587	19.8%	1,658	21.2%	(71)	(4.3%)
RRIMH	753	69.9%	-	-	753	-
IMD	719	12.6%	-	-	719	-
Corporate	(20,772)	n/a	(21,220)	n/a	448	2.1%
Income from operations	**68,073**	**20.1%**	**74,692**	**24.2%**	**(6,619)**	**(8.9%)**

Finance Costs

Change in Value of Convertible Debentures

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

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

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2016**	**December 31, 2015**	**Change**	**December 31, 2015**	**December 31, 2014**	**Change**
Face value of convertible debentures outstanding	C$41,743	C$41,743	-	C$41,743	C$41,786	(C$43)
Closing price of convertible debentures outstanding	C$103.26	C$101.50	C$1.76	C$101.50	C$105.50	(C$4.00)
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.3427	C$1.3840	(C$0.0413)	C$1.3840	C$1.1601	C$0.2239
Market value of convertible debentures outstanding	**32,102**	**30,614**	**1,488**	**30,614**	**38,000**	**(7,386)**
Repurchase of convertible debentures under normal course issuer bid			-			**33**
Change in value of convertible debentures			**1,488**			**(7,353)**

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, which is re-measured at each reporting date, and the changes in fair value are included in net income for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the (i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) changes in the market price of the Corporation's common shares, and (iii) fluctuations of the value of the Canadian dollar against the U.S. dollar.

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

In thousands of U.S. dollars, except as indicated otherwise	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change
Number of common shares to be issued for exchangeable interest liability	5,886,925	5,932,340	(45,415)	5,932,340	5,851,799	80,541
Closing price of the Corporation's common shares	C$17.57	C$14.39	C$3.18	C$14.39	C$18.41	(C$4.02)
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.3427	C$1.384	(C$0.041)	C$1.3840	C$1.1601	C$0.2239
Exchangeable interest liability	**77,034**	**61,681**	**15,353**	**61,681**	**92,864**	**(31,183)**
Exercise of exchangeable rights by non-controlling interests			-			1,147
Change in value of exchangeable interest liability			**15,353**			**(30,036)**

Interest on Exchangeable Interest Liability

The decrease of $0.6 million in interest expense on the exchangeable interest liability is primarily due to the variation in distributions from the Centers between the reporting periods.

Interest Expense

Interest expense, net of interest income, increased by $1.2 million mainly due to higher interest expense at the corporate level relating to the draws on the corporate credit facility used to finance the new acquisitions and the incremental interest expense on debt residing in the recently acquired UMASH Center.

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 $5.3 million compared to 2015 is mainly attributable to the realized losses on foreign exchange forward contracts during the prior year, and the fluctuations in the value of the Canadian dollar in relation to U.S. dollar during the year ended December 31, 2016 compared to the same period in 2015.

Income Tax

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

	Years Ended December 31,			
In thousands of U.S. dollars	2016	2015	$ Change	% Change
Current income tax expense	675	1,015	(340)	(33.5%)
Deferred income tax expense (recovery)	(1,669)	23,704	(25,373)	(107.0%)
Income tax expense (recovery)	**(994)**	**24,719**	**(25,713)**	**(104.0%)**

The decrease in current income tax is primarily attributable to higher public company expense deductions versus prior year. The deferred income tax recovery versus the prior year 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, as well as accumulated immaterial prior period adjustments to the U.S. deferred tax asset.

Income from Continuing Operations

A $30.5 million decline in income from continuing operations was primarily due to the impact of the increases in the values of exchangeable interest liability and convertible debentures and lower operating income, which were partially offset by decreases in income tax expense and foreign currency losses.

7. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results from Continuing Operations

Unaudited	2016				2015			
In thousands of U.S. dollars, except per share amounts	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Facility service revenue	**107,994**	**78,806**	**76,728**	**75,945**	**89,760**	**73,137**	**73,636**	**72,245**
Operating expenses								
Salaries and benefits	27,949	22,787	22,961	22,076	22,145	19,680	19,240	19,158
Drugs and supplies	31,619	23,250	22,538	22,225	24,138	20,734	20,450	19,488
General and administrative expenses	16,162	13,147	12,305	11,748	9,768	11,990	11,914	11,323
Depreciation of property and equipment	2,805	2,253	2,048	2,150	2,119	2,209	2,234	2,347
Amortization of other intangibles	4,156	3,187	3,111	2,922	3,796	3,791	3,817	3,745
	82,691	**64,624**	**62,963**	**61,121**	**61,966**	**58,404**	**57,655**	**56,061**
Income from operations	**25,303**	**14,182**	**13,765**	**14,824**	**27,794**	**14,733**	**15,981**	**16,184**
Finance costs								
Increase (decrease) in value of convertible debentures	(4,495)	2,381	(166)	3,768	(2,077)	(1,567)	(677)	(3,031)
Increase (decrease) in value of exchangeable interest liability	(21,707)	10,856	15,560	10,644	(8,249)	(2,338)	(4,953)	(14,496)
Interest expense on exchangeable interest liability	2,181	1,823	2,024	2,590	2,263	2,019	2,143	2,747
Interest expense, net of interest income	1,745	1,079	696	737	753	774	747	750
Loss (gain) on foreign currency	284	150	12	(782)	293	1,620	(567)	3,641
	(21,992)	**16,289**	**18,126**	**16,957**	**(7,017)**	**508**	**(3,307)**	**(10,389)**
Income (loss) before income taxes	**47,295**	**(2,107)**	**(4,361)**	**(2,133)**	**34,811**	**14,225**	**19,288**	**26,573**
Income tax expense (recovery)	8,584	(1,730)	(4,986)	(2,863)	9,500	3,614	2,882	8,723
Income (loss) for the period from continuing operations	**38,711**	**(377)**	**625**	**730**	**25,311**	**10,611**	**16,406**	**17,850**
Attributable to:								
Owners of the Corporation	28,111	(6,836)	(5,718)	(5,805)	13,343	3,663	9,279	10,733
Non-controlling interest	10,600	6,459	6,343	6,535	11,968	6,948	7,127	7,117
Earnings (loss) per share attributable to owners of the Corporation from continuing operations:								
Basic	$0.91	$ (0.22)	$ (0.18)	$ (0.19)	$ 0.43	$ 0.12	$ 0.30	$ 0.34
Fully diluted	$0.31	$ (0.22)	$ (0.18)	$ (0.19)	$ 0.22	$ 0.08	$ 0.20	$ 0.04

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

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

impacted by the periodic receipt of electronic health record incentive payments, development of urgent and primary care service lines, and new acquisitions.

- The changes in operating expenses are consistent with fluctuations in case volumes and case mix as well as development costs related to the Corporation's strategic move into urgent and primary care. In addition, 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 the orthopedic service line (refer to Section 13 of this MD&A under heading "Related Party Transactions") which was in place for the full year in 2016 versus eleven months in 2015.

- Revenue and operating expenses have been impacted by acquisitions during the year (refer to Section 3 of this MD&A under the heading "Business Overview").

- 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 exchange rate of the Canadian dollar in relation to U.S. dollar.

- Fluctuations in current income taxes have been driven by the changes in operating performance of the Centers, the deductibility of corporate expenses, intercompany interest expense deductions and taxable (deductible) foreign exchange gains (losses). Fluctuations in deferred income taxes have been driven primarily by the changes in the exchangeable interest liability and Canadian cumulative tax operating loss carryforwards.

8. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

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

		Three Months Ended December 31,		Years Ended December 31,	
		2016	2015	2016	2015
In thousands of U.S. dollars, except as indicated otherwise		*Unaudited*	*Unaudited*		
CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**20,088**	**23,346**	**78,290**	**80,240**
Non-controlling interest in cash flows of the Centers(1)		(14,360)	(14,667)	(41,859)	(45,706)
Interest expense on exchangeable interest liability(2)		2,181	2,263	8,616	9,172
Difference between straight-line rent expense and actual payments made(3)		281	(2,535)	833	(2,175)
Maintenance capital expenditures(4)		(1,027)	(862)	(2,557)	(2,780)
Difference between accrual based amounts and actual cash flows related to interest and taxes(5)		(414)	63	652	5,631
Change in non-cash operating working capital items(6)		7,831	4,384	(1,723)	1,517
Realized losses on foreign exchange forward contracts which matured in the current period(7)		-	(1,690)	-	(6,475)
Repayment of non-revolving debt(8)		(1,237)	(892)	(4,016)	(3,565)
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**13,343**	**9,410**	**38,236**	**35,859**
	CDN	**17,805**	**12,566**	**50,655**	**45,853**
Realized losses on matured foreign exchange forward contracts, net of taxes	USD	-	1,242	-	4,759
CASH AVAILABLE FOR DISTRIBUTION EXCLUDING REALIZED LOSSES ON FOREIGN EXCHANGE FORWARD CONTRACTS	**USD**	**13,343**	**10,652**	**38,236**	**40,618**
	CDN	**17,805**	**14,225**	**50,655**	**51,938**
DISTRIBUTIONS	**CDN**	**8,732**	**8,766**	**34,929**	**35,186**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE(9)					
Including realized losses on foreign exchange forward contracts	**CDN**	**$ 0.573**	**$ 0.403**	**$ 1.631**	**$ 1.466**
Excluding realized losses on foreign exchange forward contracts	**CDN**	**$ 0.573**	**$ 0.456**	**$ 1.631**	**$ 1.660**
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		**49.0%**	**69.7%**	**69.0%**	**76.7%**
Excluding realized losses on foreign exchange forward contracts		**49.0%**	**61.6%**	**69.0%**	**67.8%**
Average exchange rate of Cdn$ to US$ for the period		1.3344	1.3354	1.3248	1.2787
Weighted average number of common shares outstanding		31,045,945	31,185,411	31,050,084	31,287,313

(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.

(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 is 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 in the three-month period ended December 31, 2016 (Cdn$17.8 million) exceeded the total amount of distributions (Cdn$8.7 million) by Cdn$9.1 million. On a per common share basis, cash available for distribution of Cdn$0.57 was Cdn$0.29, or 103.6% higher than distributions of Cdn$0.28, resulting in a payout ratio of 49.0% as compared to a payout ratio of 69.7% in the same period in 2015.

Cash available for distribution in the year ended December 31, 2016 (Cdn$50.7 million) exceeded the total amount of distributions in the same period of 2016 (Cdn$34.9 million) by Cdn$15.7 million. On a per common share basis, cash available for distribution of Cdn$1.631 was Cdn$0.506, or 45.0%, higher than distributions of Cdn$1.125, resulting in a payout ratio of 69.0% as compared to a payout ratio of 76.7% in the same period in 2015.

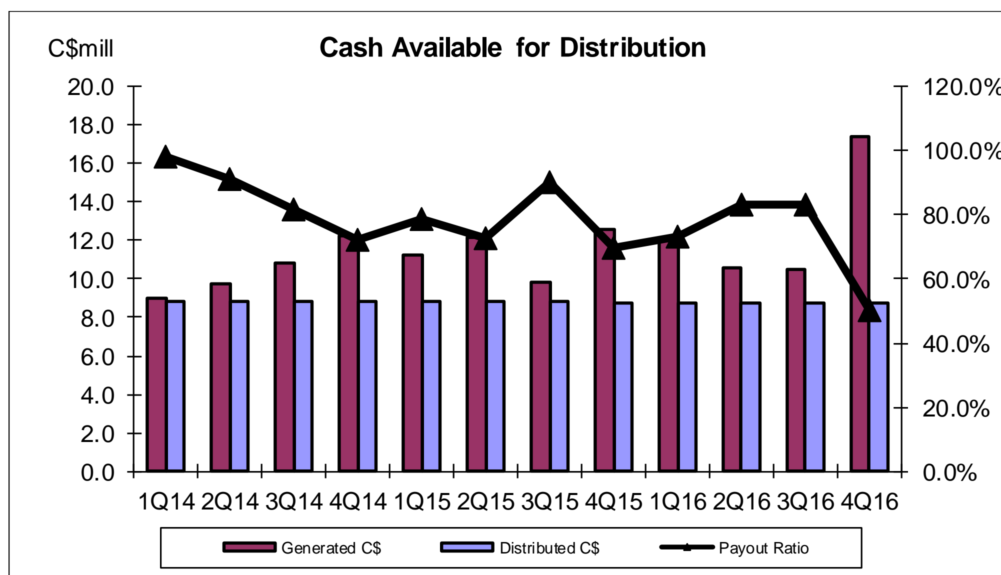
The Corporation's cash available for distribution comes solely from the Centers. The following table provides a reconciliation of cash generated at the Center level to the Corporation's cash available for distribution:

	Three Months Ended December 31,		**Years Ended December 31,**	
	2016	**2015**	**2016**	**2015**
In thousands of U.S. dollars	*Unaudited*	*Unaudited*		
Cash flows from the Centers:				
Income before interest expense and depreciation	34,330	35,674	98,006	106,656
Debt service costs:				
Interest	(1,360)	(269)	(2,724)	(1,080)
Repayment of non-revolving debt	(1,237)	(892)	(4,016)	(3,565)
Maintenance capital expenditures	(1,027)	(862)	(2,557)	(2,780)
Difference between straight-line rent expense and actual payments made	281	(2,535)	833	(2,175)
Cash available for distribution at Center level	30,987	31,116	89,542	97,056
Non-controlling interest in cash available for distribution at Center level	(14,360)	(14,667)	(41,859)	(45,706)
Corporation's share of the cash available for distribution at Center level	**16,627**	**16,449**	**47,683**	**51,350**
Corporate expenses	(1,820)	(2,106)	(6,937)	(6,128)
Interest expense on convertible debentures	(464)	(465)	(1,833)	(1,930)
Realized losses on foreign exchange forward contracts which matured in the current period	-	(1,690)	-	(6,475)
Provision for current income taxes	(1,000)	(2,778)	(677)	(958)
Cash available for distribution	**13,343**	**9,410**	**38,236**	**35,859**

Compared to the three months ended December 31, 2015, the cash available for distribution increased by $3.9 million or 41.8% as cash flows from the Centers were relatively flat but there were other favourable variances due to realized losses on foreign exchange forward contracts and higher current taxes in the prior year.

Compared to the year ended December 31, 2015, the cash available for distribution increased by $2.4 million or 6.6% as weaker cash flows from the Centers and higher corporate expenses were more than offset by the favourable variance to the realized losses on foreign exchange contracts in the prior year.

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



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

The 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.

Healthcare Industry

While impossible to currently quantify, the potential modification or replacement 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, combined with the increasing share of case volume that such plans represent;

- the opportunity for additional case volumes arising from ownership of, and participation in, Accountable Care Organizations and the related challenge of payor mix shifting to Medicare plans;

- the opportunity arising from reimbursement incentives which reward healthcare entities that meet specified quality and operational goals and operate in the most efficient and 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, while Arkansas expanded Medicaid using an alternative to traditional expansion (see www.statereforum.org).

Management Strategies

Management is committed to increasing shareholder value, primarily through continued organic growth at its current Centers, along with the acquisitions of new, accretive facilities that are complementary to our core business, specifically in the surgical hospital and ambulatory surgery center (ASC) space. In addition to accretive core acquisitions, we will also consider on other medical ventures where the financial and operational metrics are strong and could enhance a more comprehensive and integrated delivery model.

In collaboration with local management and physicians, we will continue to differentiate and grow the Corporation's Centers by the following attributes to include:

- maintaining 5 star service lines of the highest quality;

- physician development, including continued recruitment and retention of physician investors and potential physician utilizers, based on community needs;

- expanding the complement of service offerings at the Centers;

- in-market acquisitions of ancillary businesses (ASCs, imaging centers and urgent care facilities); and

- sharing and implementing best practices and cost reduction strategies, with emphasis on supply chain and implant costs

Management has a robust acquisition pipeline and will continue to investigate accretive acquisitive targets that meet our core attributes to include facilities with:

- high quality service lines;

- physician alignment and/or affiliations; and

- strong earnings and growth potential

Management will maintain its emphasis on continuation of these strategies, combined with a strong balance sheet, an experienced management team and continuing identification of suitable accretive opportunities to enhance the Corporation's operating performance.

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

Cash Balances

The Corporation's cash and cash equivalents balances, including restricted cash held in escrow, short-term investments and long-term investments, are as follows:

In thousands of U.S. dollars	December 31, 2016	December 31, 2015
Cash and cash equivalents at Center level	13,928	13,024
Cash and cash equivalents at corporate level	37,086	44,945
Cash and cash equivalents	**51,014**	**57,969**
Restricted Cash	6,437	-
	57,451	**57,969**
Short-term investments	8,569	12,975
Long-term Investments	1,613	-
Cash and cash equivalents, including short-term investments and long-term investments	**67,633**	**70,944**

Cash Flow Activity

Cash Flow

	Years Ended December 31,			
In thousands of U.S. dollars	2016	2015	$ Change	% Change
Cash provided by operating activities	78,290	80,240	(1,950)	(2.4%)
Cash provided by (used in) investing activities	(74,171)	29,427	(103,598)	(352.1%)
Cash provided by used in financing activities	(4,973)	(84,393)	79,420	94.1%
Increase (decrease) in cash and cash equivalents	**(854)**	**25,274**	**(26,128)**	(103.4%)
Effect of exchange rate fluctuations on cash balances held	336	(8,614)	8,950	103.9%
Cash and cash equivalents, beginning of the year	57,969	41,309	16,660	40.3%
Cash and cash equivalents, end of the year	**57,451**	**57,969**	**(518)**	**(0.9%)**

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.

Operating Activities and Working Capital

Cash from operating activities in the year ended December 31, 2016 decreased by $1.9 million compared to the same period in 2015 primarily due to lower income from continuing operations, offset partly by lower taxes paid.

As at December 31, 2016, the Corporation had consolidated net working capital of $74.0 million compared to $85.7 million as at December 31, 2015. The decline was due mainly to increases in accrued liabilities and current portion of long-term debt relating to the consolidation of UMASH balances. The level of working capital, including financing required to cover any deficiencies, is dependent on operating performance of the Corporation and fluctuates from period to period.

As at December 31, 2016, accounts receivable were $61.1 million (December 31, 2015: $48.8 million), accounts payable and accrued liabilities totaled $42.2 million (December 31, 2015: $33.3 million), total assets were $492.5 million (December 31, 2015: $383.0 million) and total long-term liabilities were $135.9 million (December 31, 2015: $62.4 million).

Investing Activities

The $103.6 million decrease in cash from investing activities in the year ended December 31, 2016, compared to the same period in 2015 was due to the combination of the investment in UMASH ($27.8 million), the purchase of its underlying real estate through RRIMH ($27.4 million), along with increased purchases of property and equipment and the investment in IMD in the current year, combined with $36.9 million of gross proceeds received from the sale of DPSC's assets in the prior year.

Financing Activities

Cash from financing activities in the year ended December 31, 2016 increased by $79.4 million compared to the same period in 2015, primarily due to higher proceeds from revolving credit facilities at the Centers ($14.2 million) and increased Corporate credit facility ($47.8 million), increased long-term debt, along with a decrease in distributions to non-controlling interest ($16.3 million), reduced purchases of common shares under normal course issuer bids ($2.8 million), and lower dividends paid ($1.3 million) due to a decline in the value of the Canadian dollar.

The Centers have available credit facilities in place, excluding capital leases, in the aggregate amount of $34.1 million, of which $14.2 million was drawn as at December 31, 2016. The balances available under the credit facilities, combined with cash and cash equivalents as at December 31, 2016, are available to manage the Corporation's accounts receivable, supply inventory and other short-term cash requirements. The Corporation's access to available financing resources, including those with fixed interest rates, is sufficient to manage its exposure to changes in interest rates on the Centers' revolving credit facilities, which are on a floating basis. As at December 31, 2016, the Centers were all in compliance with the terms of their debt covenants.

With the exception of UMASH, 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. During the third quarter of 2016, $47.8 million was drawn under the credit facility in relation to the acquisition of UMASH and its underlying property through RRIMH, and remained outstanding as at December 31, 2016. As at December 31, 2016, the Corporation was in compliance with all of its debt covenants.

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, 2016, the Corporation had Cdn$41.7 million aggregate principal amount of convertible debentures outstanding while the market value of the convertible debentures was $32.1 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.

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.

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, 2016, are as follows:

		Future payments (including principal and interest)				
In thousands of U.S. dollars	**Carrying values at December 31, 2016**	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**Thereafter**
Dividends payable	2,168	2,168	2,168	-	-	-
Accounts payable	21,609	21,609	21,609	-	-	-
Accrued liabilities	20,572	20,572	20,572	-	-	-
Revolving credit facilities	14,240	15,004	7,949	7,055	-	-
Income tax payable	202	202	202	-	-	-
Corporate credit facility	47,750	50,287	2,029	48,257	-	-
Notes payable and term loans	59,642	63,061	13,762	36,792	12,507	-
Finance lease obligations	3,030	3,180	1,111	1,179	890	-
Convertible debentures	32,102	44,154	2,159	4,318	37,677	-
Operating leases and other commitments (not recorded in the financial statements)	-	70,366	7,453	11,886	8,590	42,438
Total contractual obligations	201,315	290,603	79,014	109,487	59,664	42,438

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

As of May 1, 2016, the Corporation granted stock options to acquire 1,000,000 common shares of the Corporation to its Chief Executive Officer, exercisable at C$17.24 per share. On September 19, 2016, the Corporation granted stock options to acquire 350,000 common shares of the Corporation to its Chief Development Officer, exercisable at C$21.15 per share. On November 21, 2016 the Corporation granted stock options to acquire 425,000 common shares of the Corporation to its Executive Vice President Finance, who was appointed to the position of Chief Financial Officer on January 1, 2017, exercisable at C$17.98 per share. The stock options will vest after five years of employment, subject to the Corporation's maintenance of a dividend rate not less than the rate in effect at the time of the grant date.

As at December 31, 2016, and as at the date of this document, the Corporation had 31,045,945 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 normal course issuer bid allowing the Corporation to repurchase up to 620,919 of its common shares is in effect from May 16, 2016 to May 15, 2017. During the three-month period ended December 31, 2016, the Corporation did not purchase any of its common shares. During the year ended December 31, 2016, the Corporation purchased 67,500 of its common shares for total consideration of $644.

During the three-month period ended December 31, 2015, the Corporation purchased 124,900 of its common shares for total consideration of $1,387. During the year ended December 31, 2015, the Corporation purchased 300,600 of its common shares for total consideration of $3,448.

All common shares acquired under the bids were cancelled.

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, 2016 to December 31, 2016 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.

12. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the consolidated balance sheet as at December 31, 2016 consist of cash and cash equivalents, short-term and long-term investments, accounts receivable, interest payable, dividends payable, accounts payable, accrued liabilities, borrowings (including long-term debt, corporate credit facility and convertible debentures) and exchangeable interest liability.

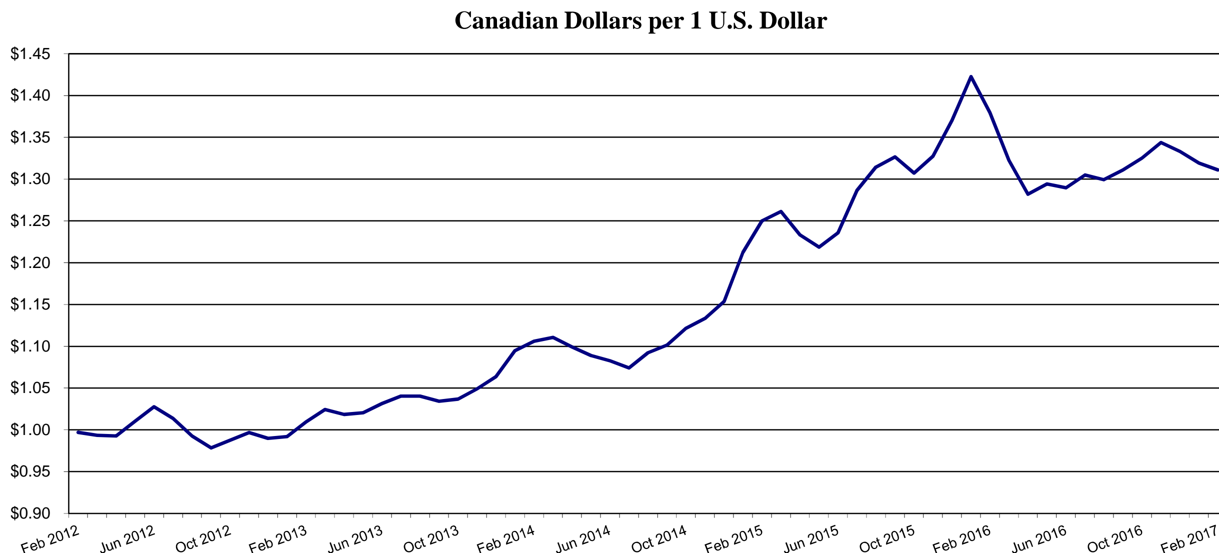
The fair values of convertible debentures and exchangeable interest liability are determined based on the closing trading price of the securities at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these 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 dividend and interest payments and expenses. A weakening Canadian currency in relation to U.S. currency has the opposite effect.

The graph below shows the movement of the monthly average exchange rates between Canadian and U.S. dollars since February 2012:



The Corporation may, from time to time, enter into foreign exchange forward contracts dependent upon actual or anticipated company performance and current market conditions. As of December 31, 2016, 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 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.

Share Price Risk

The Corporation's convertible debentures and exchangeable interest liability are measured on quoted market prices of its convertible debentures and common shares in active markets and, therefore, the

Corporation is exposed to variability in net income as prices change. Share price risk includes the impact of foreign exchange. 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

Certain Centers routinely enter into transactions with related parties for provision of services relating to the use of facilities and equipment. These parties are considered related as the centers have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. In each of 2016 and 2015, SFSH paid the South Dakota Interventional Pain Institute LLC. ("SDIPI") $659 for the use of a facility and related equipment. As of December 31, 2016, SFSH had a balance payable to SDIPI of $39 (December 31, 2015: $41). Beginning in 2017, MPREH will provide BHSH with use of the Spearfish facility. 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 was approved for participation in the Medicare Shared Savings Program, which is an incentive program established under the provisions of the PPACA. As one of the initiatives of the ACO, SFSH entered into an agreement with Great Plains Surgical, LLC ("Great Plains"), an entity controlled by certain indirect non-controlling owners of SFSH, for the provision of management services in relation to the orthopedic service line at SFSH to improve the quality of services provided and realize savings on implants and other supplies used in that service line. In addition to the payment of fees for providing management of the orthopedic service line, Great Plains is entitled to receive performance payments for realized cost savings and the attainment of quality levels.

The following is a summary of transactions at each Center with their respective related parties during the reporting periods:

In thousands of U.S. dollars		Years Ended December 31,	
Entity	**Nature of services or goods received**	**2016 $**	**2015 $**
ASH	Lease of facility building, anesthesia equipment lease, and sub-lease of MRI equipment.	726	1,704
UMASH	Provision of physician professional services and billing services.	1,329	-
OSH	Provision of office and management services, lease of hospital building, and lease of office space.	1,567	4,539
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	473	362
SFSH	Provision of management services in relation to orthopedic service line at SFSH, physician professional fees, anesthesia services, physical and occupational therapy services, medical products and implants, lithotripter services, laundry services, facility and related equipment, and shared services.	7,575	8,686
Total		**11,670**	**15,291**

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. Notes 25 and 26 to the consolidated financial statements of the Corporation for the year ended December 31, 2016 detail critical accounting judgments and estimates used in the preparation of the Corporation's financial statements. There have been no changes in the nature of these judgments and estimates since December 31, 2015.

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.

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, 2016 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. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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 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.

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. Management believes that DC&P and ICFR are designed and operative effectively.

There have been no changes in the Corporation's ICFR during the year beginning on January 1, 2016 and ended on December 31, 2016, 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.

16. 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.

The trend of rising drug costs is currently challenging to counteract and puts downward pressure on the Centers' operating margins as they have limited control over price increases.

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 Corporation conducted an extensive review to ensure that the Centers operating agreements and procedures are in compliance with the provisions and limitations of the PPACA. The Centers have updated their operating agreements and procedures as necessary to ensure compliance with 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 8 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 1.3% 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.

Cyber Security Incidents

As providers of healthcare services, information technology is a critical component of the day-to-day operation of the Centers. The Centers rely on information technology to process, transmit and store sensitive and confidential data, including protected health information, personally identifiable information, and proprietary and confidential business performance data. The Centers utilize electronic health records and other health information technology, along with additional technology systems, in connection with their operations, including for, among other things, billing and supply chain and labour management. The Centers have privacy and security processes in place to protect sensitive health and business information. The systems used by the Centers, in turn, interface with and rely on third-party systems. Incident response policies and processes are in place at Centers that provide for prompt identification and management of security incidents to facilitate maintenance and/or restoration of business continuity. The Corporation is not aware of the Centers having experienced a material breach of cyber security.

The preventive actions taken to reduce the risk of such incidents and protect information technology may not be sufficient in the future. As cyber security threats continue to evolve, the Centers may not be able to anticipate certain attack methods in order to implement effective protective measures, and may be required to expend significant additional resources to continue to modify and strengthen security measures, investigate and remediate any vulnerabilities in information systems and infrastructure, or invest in new technology designed to mitigate security risks. Third parties to whom the Centers outsource certain functions, or with whom their systems interface, are also subject to the risks outlined above and may not have or use appropriate controls to protect confidential information. A breach or attack affecting a third-party service provider or partner could harm the Corporation’s business even if the Corporation does not control the service that is attacked.

Although the Corporation and the Centers have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event. Any cyber security breach or system interruption could result in the unauthorized disclosure, misuse or loss of confidential, sensitive or proprietary information, could negatively impact the ability of the Centers to conduct normal business operations (including the collection of revenues), and could result in potential liability under privacy, security, consumer protection or other applicable laws, regulatory penalties, negative publicity and damage to the Corporation’s reputation, any of which could have a material adverse effect on the Corporation’s business, financial position, results of operations or cash flows.

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 Medical Facilities IMD Holdings Inc. 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 Indiana is formed under the laws of the State of Indiana, 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 currently to offset this income inclusion such that it will not result in a current material 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%, and is also subject to certain U.S. state and local taxes). MFA will claim interest deductions for the interest paid on MFA Promissory Notes in computing its income for U.S. federal income tax purposes. To the extent this interest expense deduction 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, historically its characterization has been 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. 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. In addition, on October 13, 2016, the IRS issued final and temporary regulations that address the treatment of certain related-party debt for U.S. federal income tax purposes. These regulations apply to certain debt instruments issued by domestic (i.e., U.S.) corporations, and could apply to the Promissory Notes if those instruments are modified or if new debt instruments are issued by Medical Facilities America. 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.

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. 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.

A successful challenge of this position taken by Medical Facilities America with respect to interest deductibility would increase the U.S. federal income tax liability of Medical Facilities America for the applicable open tax years, which would affect the ability of Medical Facilities America to make interest and principal payments on the Promissory Notes and would reduce the amount of after-tax cash generated by Medical Facilities America that could otherwise be available to make distributions to the Corporation. In addition, payments of interest would be re-characterized as non-deductible equity distributions and would be subject to U.S. withholding tax to the extent Medical Facilities America had current or accumulated earnings and profits.

It should also be noted that the current United States Presidential administration and Congress have announced plans for sweeping U.S. federal income tax law changes, although it is highly uncertain what actual legislation may be enacted, and whether it would be adverse or beneficial to the Corporation or its subsidiaries.

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.

17. 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:

IAS 7 *Statement of Cash Flows* ("IAS 7")

As part of their disclosure initiative, the International Accounting Standards Board ("IASB") has issued amendments to IAS 7 requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a Company. The Corporation intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017.

IAS 12 *Income Taxes* ("IAS 12")

In January 2016, the IASB has issued amendments to IAS 12 to provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The Corporation intends to adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning January 1, 2017.

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. 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.

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.

IFRS 2 *Share-Based Payments* ("IFRS 2")

In September 2016, the IASB issued amendments to IFRS 2. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Corporation intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of the adoption of the amendments has not yet been determined.

Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

December 31, 2016 and 2015
(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 controls and financial reporting matters. On the recommendation of the Audit Committee, the consolidated financial statements are forwarded to the Board of Directors for its approval.

“Britt T. Reynolds”

Britt T. Reynolds
Chief Executive Officer

“Tyler C. Murphy”

Tyler C. Murphy
Chief Financial Officer

Toronto, Canada
March 22, 2017

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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, 2016 and December 31, 2015, the consolidated statements of income and 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 as issued by the International Accounting Standards Board, 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, 2016 and December 31, 2015, 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 22, 2017

Toronto, Canada

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MEDICAL FACILITIES CORPORATION

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

	Note	December 31, 2016 $	2015 $
ASSETS			
Current assets			
Cash and cash equivalents		51,014	57,969
Restricted cash		6,437	-
Short-term investments		8,569	12,975
Accounts receivable	16.5.2	61,058	48,754
Supply inventory		6,252	6,031
Prepaid expenses and other		6,011	4,160
Total current assets		**139,341**	**129,889**
Non-current assets			
Long-term investments		1,613	-
Deferred income tax assets		15,712	18,286
Property and equipment	9	94,893	61,121
Goodwill	10.1	136,920	102,714
Other intangibles	10.2	102,427	70,103
Other assets	22.2	1,555	839
Total non-current assets		**353,120**	**253,063**
TOTAL ASSETS		**492,461**	**382,952**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		2,168	2,107
Accounts payable		21,609	19,035
Accrued liabilities		20,572	14,307
Income tax payable	19	202	849
Current portion of long-term debt	11	20,818	7,848
Total current liabilities		**65,369**	**44,146**
Non-current liabilities			
Corporate credit facility	11	47,750	-
Long-term debt	11	56,094	27,580
Deferred income tax liabilities	19	-	4,249
Convertible debentures	12	32,102	30,614
Exchangeable interest liability	16.2	77,034	61,681
Total non-current liabilities		**212,980**	**124,124**
Total liabilities		**278,349**	**168,270**
Equity			
Share capital	13	397,522	398,166
Contributed surplus	24	181	-
Deficit		(248,994)	(232,312)
Equity attributable to owners of the Corporation		148,709	165,854
Non-controlling interest	14	65,403	48,828
Total equity		**214,112**	**214,682**
Commitments and contingencies	23		
TOTAL LIABILITIES AND EQUITY		**492,461**	**382,952**

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

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
		Share Capital $	Contributed Surplus $	Deficit $	Total $	$	$
2016							
Balance at January 1, 2016		398,166	-	(232,312)	165,854	48,828	214,682
Net income and comprehensive income for the year		-		9,754	9,754	29,940	39,694
Share based compensation	24	-	181	-	181	-	181
Dividends to owners of the Corporation		-	-	(26,436)	(26,436)	-	(26,436)
Distributions to non-controlling interest		-	-	-	-	(32,058)	(32,058)
Acquisition of Unity Medical and Surgical Hospital	5	-	-	-	-	17,012	17,012
Acquisition of Integrated Medical Delivery, L.L.C.	7	-	-	-	-	1,681	1,681
Purchase of common shares under normal course issuer bids	13.3	(644)	-	-	(644)	-	(644)
Balance at December 31, 2016		**397,522**	**181**	**(248,994)**	**148,709**	**65,403**	**214,112**
2015							
Balance at January 1, 2015		400,467	-	(252,110)	148,357	51,723	200,080
Net income and comprehensive 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	13.3	(3,448)	-	-	(3,448)	-	(3,448)
Balance at December 31, 2015		**398,166**	**-**	**(232,312)**	**165,854**	**48,828**	**214,682**

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

MEDICAL FACILITIES CORPORATION

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

	Note	Years Ended December 31, 2016 $	2015 $
Facility service revenue		**339,472**	**308,778**
Operating expenses			
Salaries and benefits		95,774	80,223
Drugs and supplies		99,632	84,810
General and administrative expenses		53,362	44,995
Depreciation of property and equipment	9	9,255	8,909
Amortization of other intangibles	10.2	13,376	15,149
		271,399	**234,086**
Income from operations		**68,073**	**74,692**
Finance costs			
Increase (decrease) in value of convertible debentures	12	1,488	(7,353)
Increase (decrease) in value of exchangeable interest liability	16.2	15,353	(30,036)
Interest expense on exchangeable interest liability	16.2	8,616	9,172
Interest expense, net of interest income	20	4,258	3,024
Loss (gain) on foreign currency	21	(336)	4,987
		29,379	**(20,206)**
Income before income taxes		**38,694**	**94,898**
Income tax expense (recovery)	19	(994)	24,719
Income for the period from continuing operations		**39,688**	**70,179**
Discontinued operation			
Income for the period from discontinued operation, net of tax	8	**6**	**22,364**
Net income and comprehensive income for the year		**39,694**	**92,543**
Attributable to:			
Owners of the Corporation		9,754	47,127
Non-controlling interest	14	29,940	45,416
		39,694	**92,543**
Earnings per share			
From continuing and discontinued operations			
Basic	13.2	$ 0.31	$ 1.51
Fully diluted	13.2	$ 0.30	$ 0.79
From continuing operations			
Basic	13.2	$ 0.31	$ 1.18
Fully diluted	13.2	$ 0.30	$ 0.53

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, 2016 $	2015 $
Cash flows from operating activities			
Net income for the year		39,694	92,543
Adjustments for:			
Depreciation of property and equipment	9	9,255	9,083
Amortization of other intangibles	10.2	13,376	15,460
Share of equity income in an associate	22.2	(123)	(135)
Change in value of convertible debentures	12	1,488	(7,353)
Change in value of exchangeable interest liability	16.2	15,353	(30,036)
Loss (gain) on foreign currency	21	(336)	4,987
Gain on sale of assets	8.1	-	(20,953)
Income tax expense (recovery)	19	(994)	24,750
Share based compensation	24	181	-
Interest expense, net of interest income		12,874	12,265
		90,768	100,611
Changes in non-cash operating working capital	15	1,723	(1,517)
		92,491	99,094
Interest paid, net of received		(12,874)	(12,266)
Income and withholding taxes paid		(1,327)	(6,588)
Net cash provided by operating activities		**78,290**	**80,240**
Cash flows from investing activities			
Purchase of property and equipment	9	(43,704)	(7,385)
Business combinations	4,5,7	(33,260)	-
Gross proceeds from the sale of Dakota Plains Surgical Center, LLP's assets included in discontinued operation	8.2	-	36,923
Redemption of (investment in) short-term and long-term bank investments		2,793	(111)
Net cash generated by (used in) investing activities		**(74,171)**	**29,427**
Cash flows from financing activities			
Net proceeds from revolving credit facilities and issuance of notes payable		57,470	1,806
Repayments of notes payable at the Centers		(4,016)	(3,565)
Discharge of real estate loan at Dakota Plains Surgical Center, LLP	7	-	(3,157)
Distributions, return of capital and loan receivable from an associate	22.2	78	69
Investment in Black Hills Surgical Hospital, LLP by non-controlling interest		572	-
Distributions to non-controlling interest	14	(32,058)	(48,311)
Dividends paid		(26,375)	(27,754)
Purchase of common shares under the terms of normal course issuer bids	13.3	(644)	(3,448)
Purchase of convertible debentures under the terms of normal course issuer bid	12	-	(33)
Net cash generated by (used in) financing activities		**(4,973)**	**(84,393)**
Increase (decrease) in cash and cash equivalents		**(854)**	**25,274**
Effect of exchange rate fluctuations on cash balances held	21	336	(8,614)
Cash and cash equivalents, beginning of the year		57,969	41,309
Cash and cash equivalents, end of the year		**57,451**	**57,969**
Non-cash transactions:			
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		-	1,147
Investment in equity accounted investees	22.2	678	-

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 seven limited liability entities, six of which own a specialty hospital or an ambulatory surgery center (the "Centers"). 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 (note 8). On January 14, 2016, the Corporation acquired a 51% controlling interest in Integrated Medical Delivery, L.L.C., a diversified healthcare service company that provides third-party business solutions to healthcare entities (note 7). On September 23, 2016, the Corporation acquired an indirect 62% controlling interest in Unity Medical and Surgical Hospital (note 5). On October 3, 2016, Sioux Falls Specialty Hospital, LLP, one of the Corporation's Centers, acquired 100% of Prairie States Surgical Center, L.L.C., and integrated it into its operations (note 4).

The Corporation's ownership interest in each of its operating subsidiaries is as follows:

		Ownership Interest December 31,	
Centers	**Location**	**2016**	**2015**
Arkansas Surgical Hospital, L.L.C. ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
Unity Medical and Surgical Hospital ("UMASH")	Mishawaka, Indiana	62.0%	-
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	60.3%	60.3%
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%
The Surgery Center of Newport Coast, LLC ("SCNC")	Newport Beach, California	51.0%	51.0%
Other			
Integrated Medical Delivery, L.L.C. ("IMD")	Oklahoma City, Oklahoma	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 25 to these consolidated financial statements.

These consolidated financial statements were approved for issue by the Corporation's Board of Directors on March 22, 2017.

3. BASIS OF PREPARATION

These consolidated financial statements include the accounts of the Corporation and its subsidiaries and have been prepared on the historical cost basis except for certain financial instruments and share based compensation, which are measured at fair value (note 25.15).

The Corporation's consolidated 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.

4. ACQUISITION OF PRAIRIE STATES SURGICAL CENTER

On October 3, 2016, Sioux Falls Specialty Hospital, LLP ("SFSH") acquired 100% of Prairie States Surgical Center, L.L.C. ("PSSC") which owns and operates Prairie States Surgical Center located in Sioux Falls, South Dakota. PSSC was acquired for a purchase price of $20,281, consisting of $4,309 consideration in cash and $15,972 of seller and other financing. Seller financing is required to be paid in equal instalments over a period of five years, and included in long-term debt on the consolidated balance sheet.

PSSC is an 8,000 square foot facility with two operating rooms focused on providing facilities for orthopedic procedures, and has been integrated into the operations of SFSH. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of PSSC are included in the consolidated financial statements through the consolidation of SFSH.

The purchase price allocation as at December 31, 2016 is as follows:

	$
Inventory	142
Equipment	1,030
Goodwill	17,909
Intangible asset	1,200
Fair value of net assets acquired	**20,281**

4. ACQUISITION OF PRAIRIE STATES SURGICAL CENTER (Continued)

Other intangibles represent the value of a non-compete agreement with the physician-owners of PSSC that will be amortized over an estimated useful life of 5 years. Approximately $142K of acquisition-related costs have been recognized as an expense in the consolidated statement of income and comprehensive income. The goodwill attributable to this acquisition includes the value of the workforce acquired, the benefit of future revenue growth, opportunities to expand within the marketplace and other key competitive advantages.

Had the acquisition of PSSC occurred as of January 1, 2016, the Corporation's statement of income and comprehensive income for the year ended December 31, 2016, would have included facility service revenue of $7,787 and income from operations of $3,986, inclusive of pre-acquisition facility service revenue of $5,497 and income from operations of $2,502.

In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2016.

5. ACQUISITION OF UNITY MEDICAL AND SURGICAL HOSPITAL

On September 23, 2016, the Corporation acquired an indirect 62.0% controlling interest in Unity Medical and Surgical Hospital ("UMASH"), a medical and surgical hospital located in Mishawaka, Indiana for a cash purchase price of $27,750, with funding from a draw on the Corporation's credit facility. The hospital's operations are 86.0% owned by Physician's ASC Management LLC. ("PAM"). Under the terms of the agreement, the Corporation purchased a 72.1% interest in PAM (representing an indirect 62.0% ownership interest in UMASH). All but four percent of the remaining ownership interest in PAM can be purchased over the three subsequent anniversaries of the initial closing, at a price to be determined by the fair market value of the hospital at the end of the prior calendar year.

UMASH is a 50,000 square foot, 29-bed Medicare-certified facility with four surgical and two special procedure suites focused on providing facilities for orthopedic, ophthalmology, podiatry, pain management, and spine surgery procedures. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of UMASH are included in the consolidated financial statements.

5. ACQUISITION OF UNITY MEDICAL AND SURGICAL HOSPITAL (Continued)

The preliminary purchase price allocation as at December 31, 2016 is as follows:

	$
Cash	786
Accounts receivable	11,653
Prepaid expenses and other	1,023
Property and equipment	2,257
Goodwill	12,215
Other intangibles	44,500
Accounts payable	(3,358)
Accrued liabilities and other liabilities	(8,444)
Long-term debt	(15,870)
Non-controlling interest	(17,012)
Fair value of net assets acquired	**27,750**

Other intangibles principally represent the values of the care network at UMASH that will be amortized over estimated useful lives of 13-18 years. Approximately $315 of acquisition-related costs have been recognized as an expense in the consolidated statement of income and comprehensive income. The goodwill attributable to this acquisition includes the value of the workforce acquired, the benefit of future revenue growth, opportunities to expand within the marketplace and other key competitive advantages.

The payment of $27,750 was settled in cash of $16,348 and payables to the seller of $11,402, which was subsequently settled by year end.

The accounts receivable primarily represent facility service revenue receivable relating to the provision of operating facilities and services to patients.

Changes have been made to the purchase price allocation versus the preliminary figures presented as at September 30, 2016, further to a valuation of the intangibles and goodwill consisting of a decrease in goodwill from $12,609 to $12,215, an increase in other intangible assets from $37,826 to $44,500, and an increase in non-controlling interest from $10,732 to $17,012.

Had the acquisition of UMASH occurred as of January 1, 2016, the Corporation's statement of income and comprehensive income for the year ended December 31, 2016, would have included facility service revenue of $40,796 and income from operations of $5,259, inclusive of pre-acquisition facility service revenue of $26,593 and income from operations of $3,152.

In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2016.

6. PURCHASE OF UNITY REAL ESTATE THROUGH PARTNERSHIP

On July 15, 2016, RRI Mishawaka Hospital LP ("RRIMH") purchased real estate assets consisting of UMASH's underlying land and building for $27,387. RRIMH is a limited partnership in which the Corporation has an 84% interest and the remaining 16% interest in the partnership is held directly and indirectly by Rainier Realty Investments LP, a non-related third party. The Corporation consolidates the results of operations and the financial position of this partnership in its consolidated financial statements. The purchase of the real estate assets was funded solely by a loan from the Corporation. The Corporation funded the loan from its available cash and a $20,000 draw on its corporate credit facility.

7. ACQUISITION OF INTEGRATED MEDICAL DELIVERY, L.L.C.

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 business solutions to healthcare entities such as physician practices, facilities, and insurance companies. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of IMD are included in the consolidated financial statements.

The final purchase price allocation is as follows:

	$
Current assets, less current liabilities (including cash of $12)	410
Property and equipment	337
Goodwill	4,082
Long-term debt	(1,398)
Non-controlling interest	(1,681)
Fair value of net assets acquired	**1,750**

The goodwill attributable to this acquisition includes the value of the workforce acquired, the benefit of future revenue growth and opportunities to expand within the marketplace.

8. DISCONTINUED OPERATION

On June 4, 2015, Dakota Plains Surgical Center, LLP ("DPSC"), the Corporation's 65% owned subsidiary, sold the assets related to the operation of its specialty hospital in Aberdeen, South Dakota, and discharged encumbrances related to the assets sold for gross proceeds of $36,923, which were to partially used to discharge the real estate loan of DPSC. The transaction was completed on June 30, 2015.

8.1 Results of discontinued operation

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

	Years Ended December 31,	
	2016 $	**2015 $**
Facility service revenue	47	6,213
Operating expenses	39	4,701
Income from operations	**8**	**1,512**
Finance costs	-	70
Income before income taxes	**8**	**1,442**
Income tax expense	2	31
Gain on sale of DPSC's assets, net of tax	-	20,953
Net income for the period from discontinued operation	**6**	**22,364**

8.2 Cash flows from discontinued operation

	Years Ended December 31,	
	2016 $	**2015 $**
Net cash provided (used) by operating activities	(18)	1,899
Net cash generated by investing activities	-	36,913
Net cash used in financing activities	(229)	(17,033)
Net cash flow for the period	**(247)**	**21,779**

9. PROPERTY AND EQUIPMENT

	Land and Improvements	Construction in Progress	Building and Improvements	Equipment and Furniture	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2015	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
Additions	1,359	2,786	35,421	4,138	43,704
Disposals	-	(90)	(5)	(197)	(292)
Disposition of assets to MPREH			(4,193)	(108)	(4,301)
Purchase of IMD, UMASH and PSSC assets	-	-	1,116	2,508	3,624
Balance at December 31, 2016	**7,312**	**4,815**	**93,797**	**58,466**	**164,390**
Accumulated Depreciation					
Balance at January 1, 2015	(65)	-	(25,077)	(33,002)	(58,144)
Charged for the year	(26)	-	(3,206)	(5,967)	(9,255)
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)
Charged for the year	(25)	-	(2,777)	(6,453)	(9,255)
Disposals	-	-	15	277	292
Balance at December 31, 2016	**(116)**	**-**	**(29,196)**	**(40,185)**	**(69,497)**
Carrying Amounts					
At December 31, 2015	5,862	2,119	35,024	18,116	61,121
At December 31, 2016	**7,196**	**4,815**	**64,601**	**18,281**	**94,893**

Included in the equipment and furniture for the years 2016 and 2015 is certain equipment under finance lease agreements as follows:

	2016	2015
	$	$
Equipment	7,952	7,320
Less accumulated depreciation	(5,896)	(4,336)
Total	**2,056**	**2,984**

10. GOODWILL AND OTHER INTANGIBLES

10.1 Goodwill

The carrying amount of goodwill as at December 31, 2016 was $136,920 (2015: $102,714).

10.2 Other intangibles

	Hospital Operating Licenses	Medical Charts and Records	Care Network	Trade Names	Non-Compete	Total
	$	$	$	$	$	$
Cost						
Balance at January 1, 2015	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
Purchase of UMASH assets	1,100	200	43,200	-	-	44,500
Purchase of PSSC assets	-	-	-	-	1,200	1,200
Balance at December 31, 2016	**2,576**	**7,599**	**239,123**	**9,128**	**1,200**	**259,626**
Accumulated Amortization						
Balance at January 1, 2015	(1,131)	(7,015)	(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)
Amortization charges	(244)	(192)	(12,880)	-	(60)	(13,376)
Balance at December 31, 2016	**(1,336)**	**(7,207)**	**(148,596)**	**-**	**(60)**	**(157,199)**
Carrying Amounts						
At December 31, 2015	384	384	60,207	9,128	-	70,103
At December 31, 2016	**1,240**	**392**	**90,527**	**9,128**	**1,140**	**102,427**
Amortization period (years)	5	5-10	10-15	N/A (indefinite life)	5	

10.3 Impairment

The Corporation performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2016 and December 31, 2015 and determined that there was no impairment.

The Corporation identified seven cash generating units ("CGUs") for which impairment testing was performed. Management calculated the recoverable amount of each CGU by determining the fair value less costs to sell. Management has estimated cost to dispose to be 1% of the fair value of the CGUs, based on recent market data.

10. GOODWILL AND OTHER INTANGIBLES (Continued)

For the December 31, 2016 impairment test, enterprise value to EBITDA multiples of 7.0 to 9.5 (2015: 10.1 to 11.1) 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.

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.

We do not believe any reasonable possible change in the multiplier or other key assumptions would cause the carrying value of the CGUs to exceed their recoverable amount.

The following amounts for goodwill and intangibles with indefinite useful lives were allocated to each of the CGUs:

	Years Ended December 31,	
	2016 $	2015 $
ASH	17,911	17,911
UMASH	12,215	-
OSH	18,232	18,232
BHSH	31,244	31,244
SFSH	60,896	42,987
SCNC	2,265	2,265
IMD	4,082	-
	146,845	**112,639**

11. LONG-TERM DEBT

	December 31, 2016				December 31, 2015	
	Authorized	Balance	Effective Interest Rate	Maturity	Balance	Effective Interest Rate
	$	$	%		$	%
Revolving credit facilities						
ASH	4,000	-	3.5	Oct 31, 2021	-	-
UMASH	4,000	4,000	3.8	Jan 5, 2018	-	-
OSH	6,350	2,750	LIBOR+2.6	Nov 4, 2019	4,500	3.0
BHSH	6,000	-	LIBOR+1.3	Jul 31, 2017	-	-
SFSH	7,000	4,101	LIBOR+1.0	Oct 1, 2017	-	-
SFSH	4,235	3,077	LIBOR+1.0	Jun 30, 2017	-	-
SFSH	3,500	312	LIBOR+1.1	May 1, 2017	-	-
SCNC	2,500	-	LIBOR+3.5	Jul 31, 2017	-	-
	37,585	**14,240**			**4,500**	
Corporate credit facility						
MFA	**80,000**	**47,750**	**4.3**	Dec 31, 2018	**-**	**-**
Notes payable						
ASH		1,136	4.3	Oct 31, 2021	1,330	4.3
UMASH		10,887	3.3	Dec 31, 2018	-	-
BHSH		1,871	2.8	Sep 1, 2020	2,336	2.84
BHSH		2,368	3.0	Aug 1, 2018	2,475	3.0
BHSH		804	3.0	Aug 1, 2018	912	3.0
BHSH		555	3.7	Dec 31, 2021	-	-
BHSH		4,940	3.0	Dec 31, 2019	5,478	2.97
BHSH		4,867	2.9	Jun 30, 2021	-	-
SFSH		15,328	2.9	Dec 31, 2019	16,034	2.85
SFSH		-	-		296	5.1
SFSH		15,723	1.3	Oct 1, 2021	-	-
IMD		1,163	4.8	Jun 30, 2021	-	-
		59,642			**28,861**	
Capital leases						
ASH		374	5.5	2018 – 2020	539	5.7
UMASH		240	5.7	2018 – 2020	-	-
SFSH		2,416	2.3	2016 – 2019	1,528	2.3
		3,030			**2,067**	
		124,662			**35,428**	
Less current portion		(20,818)			(7,848)	
		103,844			**27,580**	

11. LONG-TERM DEBT (Continued)

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, 2016, the Centers were in compliance with their covenants.

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

	$
2017	20,818
2018	65,605
2019	25,202
2020	4,548
2021	8,489
Future maturities of long-term debt	**124,662**

12. 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.

12. CONVERTIBLE DEBENTURES (Continued)

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.

The Corporation's normal course issuer bid for its convertible debentures was in effect from December 30, 2014 to December 30, 2015. In 2015, the Corporation purchased Cdn$43 aggregate principal amount of its outstanding convertible debentures for a total consideration of $33.

The following table represents changes in the convertible debentures for the years 2016 and 2015:

	$
Balance at January 1, 2015	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
Increase in fair value of convertible debentures at market price	1,488
Balance at December 31, 2016	**32,102**

13. SHARE CAPITAL

13.1 Share capital

The following table represents changes in the number and value of common shares issued and outstanding for the years 2016 and 2015:

	Number of Common Shares	$
Balance at January 1, 2015	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 13.3)	(300,600)	(3,448)
Balance at December 31, 2015	31,113,445	398,166
Common shares purchased and cancelled under the terms of normal course issuer bids (note 13.3)	(67,500)	(644)
Balance at December 31, 2016	**31,045,945**	**397,522**

13. SHARE CAPITAL (Continued)

13.2 Earnings per share

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

				Year Ended December 31, 2016			Year Ended December 31, 2015
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income for the year attributable to owners of the Corporation	$	9,750	4	9,754	37,018	10,109	47,127
Divided by weighted average number of common shares outstanding for the year		31,050,084	31,050,084	31,050,084	31,287,313	31,287,313	31,287,313
Basic earnings per share attributable to owners of the Corporation	**$**	**0.31**	**-**	**0.31**	**1.18**	**0.32**	**1.51**

13. SHARE CAPITAL (Continued)

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

		Year Ended December 31, 2016			Year Ended December 31, 2015		
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income for the year attributable to owners of the Corporation	$	9,750	4	9,754	37,018	10,109	47,127
Decrease (decrease) in value of convertible debentures		-	-	-	(7,353)	-	(7,353)
Interest expense on convertible debentures (tax effected)		-	-	-	1,419	-	1,419
Decrease in value of exchangeable interest liability (tax effected)		-	-	-	(19,223)	-	(19,223)
Interest expense on exchangeable interest liability		-	-	-	9,172	-	9,172
Modified net income for the year attributable to owners of the Corporation	$	9,750	4	9,754	21,033	10,109	31,142
Divided by weighted average number of common shares:							
Outstanding for the year		31,050,084	-	31,050,084	31,287,313	-	31,287,313
Deemed to be issued on the conversion of the outstanding convertible debentures		-	-	-	2,185,478	-	2,185,478
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		-	-	-	5,892,069	-	5,892,069
Deemed to be issued as share based compensation		1,775,000	-	1,775,000	-	-	-
Weighted average number of common shares[(1)]		32,825,084	-	32,825,084	39,364,860	-	39,364,860
Fully diluted earnings per share	**$**	**0.30**	**-**	**0.30**	**0.53**	**-**	**0.79**

[(1)] For the year ended December 31, 2016, the impact of convertible debentures, exchangeable interest liabilities were excluded from the dilutive weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

13. SHARE CAPITAL (Continued)

13.3 Normal course issuer bids

The Corporation's current normal course issuer bid for up to 620,919 of its common shares, is in effect from May 16, 2016 to May 15, 2017. During the year ended December 31, 2016, the Corporation purchased 67,500 of its common shares for a total consideration of $644 from the open market. During the year ended December 31, 2015, the Corporation purchased 300,600 of its common shares for $3,448, under a previous normal course issuer bid.

The purchases under the bids are recorded in share capital. All common shares acquired under these bids were cancelled.

14. NON-CONTROLLING INTEREST

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

December 31, 2016	ASH $	UMASH $	OSH $	BHSH $	SFSH $	SCNC $	IMD $	RRIMH $
Non-controlling interest percentage	**44%**	**38%**	**35%**	**35%**	**35%**	**49%**	**49%**	**16%**
Current assets	10,840	20,682	14,339	15,442	26,114	3,234	1,329	483
Non-current assets	6,109	1,936	3,538	26,553	47,688	801	266	27,064
Current liabilities	8,492	8,876	5,342	8,747	24,518	464	431	547
Non-current liabilities	1,922	24,526	2,968	13,729	28,947	-	1,163	27,265
Equity attributable to owners of the Corporation	3,660	(6,686)	6,219	12,687	13,219	1,822	-	(223)
Non-controlling interest	2,875	(4,098)	3,348	6,832	7,118	1,750	-	(42)
Facility service revenue	67,350	14,203	63,544	85,536	97,562	8,011	5,708	1,077
Operating expenses	53,076	13,027	53,574	60,029	64,446	6,411	5,051	1,342
Net income attributable to owners of the Corporation	8,000	729	6,481	16,580	21,526	816	335	(223)
Net income attributable to non-controlling interest	6,286	447	3,490	8,927	11,590	784	322	(42)
Net income	**14,286**	**1,176**	**9,971**	**25,507**	**33,116**	**1,600**	**657**	**(265)**
Distributions to non-controlling interest	6,887	-	3,654	9,100	11,340	1,006	-	-
Cash flows from operating activities	15,826	(2,091)	12,710	28,248	33,739	2,162	739	601
Cash flows from investing activities	(536)	103	(148)	(10,135)	(8,450)	(28)	(28)	(27,383)
Cash flows from financing activities[(1)]	(16,013)	8,656	(12,189)	(17,472)	(26,497)	(2,053)	(236)	27,265
Net cash inflow (outflow)	**(723)**	**6,668**	**373**	**641**	**(1,208)**	**81**	**475**	**483**

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

14. NON-CONTROLLING INTEREST (Continued)

December 31, 2015

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

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

14.1 Significant restrictions

With the exception of UMASH, the partnership or operating agreements governing each of the respective Centers (each, a “Partnership Agreement”) in certain circumstances 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.

15. NET CHANGES IN NON-CASH WORKING CAPITAL

The net changes in non-cash working capital included in the statement of cash flows consist of the following:

	Years Ended December 31,	
	2016 $	2015 $
Accounts receivable	144	(1,362)
Supply inventory	(79)	(588)
Prepaid expenses and other	(692)	(726)
Accounts payable	(1,008)	3,843
Accrued liabilities	3,358	(2,684)
Net changes in non-cash working capital	**1,723**	**(1,517)**

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Foreign exchange forward contracts

At December 31, 2016, and December 31, 2015, the Corporation did not hold any foreign exchange forward contracts.

16.2 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.

16. 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 four 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 13.2.

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, 2016 and December 31, 2015 are as follows:

	December 31,	
	2016	2015
Number of common shares to be potentially issued for exchangeable interest liability	5,886,925	5,932,340
Fair value of the exchangeable interest liability thousands of U.S. dollars	US$ 77,034	US$ 61,681
Fair value of the exchangeable interest liability in thousands of Canadian dollars	Cdn$103,433	Cdn$ 85,367

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

16.3 Fair values and classification of financial instruments

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, 2016 and December 31, 2015:

	December 31,	
	2016 **$**	**2015** **$**
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	51,014	57,969
Restricted cash	6,437	-
Short-term investments	-	3,496
Held-to-maturity (carried at amortized cost)		
Short-term investments	8,569	9,479
Long-term investments	1,613	-
Loans and receivable (carried at amortized cost)		
Accounts receivable	61,058	48,754
Other assets	1,555	839
Financial liabilities		
Fair value through profit or loss		
Convertible debentures	32,102	30,614
Exchangeable interest liability	77,034	61,681
Other liabilities (carried at amortized cost)		
Dividends payable	2,168	2,107
Accounts payable	21,609	19,035
Accrued liabilities	20,572	14,307
Long-term debt	124,662	35,428

16. 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 25.17). The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at fair value as of December 31, 2016 and December 31, 2015. 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, 2016			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	51,014	-	-	51,014
Short-term investments	8,569	-	-	8,569
Long Term Investments	1,613	-	-	1,613
Financial liabilities				
Convertible debentures	32,102	-	-	32,102
Exchangeable interest liability	-	77,034	-	77,034
Total	**93,298**	**77,034**	**-**	**170,332**

	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**

16.4 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
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.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

16.5 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.

16.5.1 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 the Audit Committee of the Board of Directors. As at December 31, 2016, no foreign exchange forward 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	2016 $	2015 $
1% strengthening of the Canadian dollar	(372)	161
1% weakening of the Canadian dollar	372	(161)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

16.5.2 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,

(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 25.21).

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.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The table below summarizes the percentages of facility service revenue generated from and accounts receivable balances with each primary third-party payor group in 2016 and 2015:

	2016		2015	
	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)	28.7	13.4	27.5	13.2
Blue Cross and Blue Shield – category (ii)	35.1	34.7	32.5	28.3
Workers' compensation – category (ii)	8.0	8.3	10.4	14.6
Other private insurance – category (iii)	19.7	28.9	18.7	22.5
Other insurance and self-pay – categories (iv) and (v)	8.5	14.7	10.9	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.

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, 2016 and December 31, 2015:

	December 31,	
	2016 $	2015 $
Accounts receivable	61,058	48,754
Neither past due nor impaired	49,983	39,888
Past due 61-90 days	5,918	4,364
Past due 91-120 days	3,211	2,275
Past due 121-150 days	1,370	2,435
Past due more than 151 days	7,745	7,526
Allowance for non-collectible receivable balances	(7,169)	(7,734)
Net accounts receivable	**61,058**	**48,754**

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

16.5.3 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, 2016 and December 31, 2015 was:

	December 31,	
	2016 $	2015 $
Facilities with fixed interest rates	114,423	61,542
Facilities with variable interest rates	10,239	4,500
Total	**124,662**	**66,042**

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 $84 (2015: $13) 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.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

16.5.4 Price Risk

The Corporation's convertible debentures and exchangeable interest liability are measured based 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 and convertible debentures are quoted in Canadian dollars.

16.5.5 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, 2016, are as follows:

		Future payments (including principal and interest)				
Contractual Obligations	**Carrying values at Dec 31, 2016 $**	**Total $**	**Less than 1 year $**	**1-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	2,168	2,168	2,168	-	-	-
Accounts payable	21,609	21,609	21,609	-	-	-
Accrued liabilities	20,572	20,572	20,572	-	-	-
Income tax payable	202	202	202	-	-	-
Corporate credit facility	47,750	50,287	2,029	48,257	-	-
Centers' revolving credit facilities	14,240	15,004	7,949	7,055	-	-
Notes payable and term loans	59,642	63,061	13,762	36,792	12,507	-
Finance lease obligation	3,030	3,180	1,111	1,179	890	-
Convertible debentures	32,102	44,154	2,159	4,318	37,677	-
Operating leases and other commitments (not recorded in the financial statements)	-	70,366	7,453	11,886	8,590	42,438
Total contractual obligations	**201,315**	**290,603**	**79,014**	**109,487**	**59,664**	**42,438**

The $80,000 Corporate credit facility, which matures on December 31, 2018, had $32,250 undrawn as at December 31, 2016.

The Corporation anticipates renewing, extending or replacing its revolving credit facilities which fall due during 2017 and expects that cash flows from operations and working capital will be adequate to meet future payments on other contractual obligations during 2017.

17. 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 13.1), convertible debentures (note 12) 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.

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 year ended December 31, 2016, the Corporation returned capital to shareholders through the repurchase and cancellation of 67,500 common shares under the normal course issuer bids for $644 (note 13.1). During the year ended December 31, 2015, the Corporation repurchased and cancelled 300,600 of common shares for $3,448 under the same program.

18. EMPLOYEE FUTURE BENEFITS

Benefits programs at the subsidiaries 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 2016, contributions made by the subsidiaries to such plans were $2,203 (2015: $1,476).

19. 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	2016 $	2015 $
Current	675	1,015
Deferred	(1,669)	23,704
Total income tax expense (recovery) from continuing operations	**(994)**	**24,719**

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	2016 $	2015 $
Income tax instalments deposited	475	6,438
Provision for current income taxes	(677)	(7,287)
Income tax payable	**(202)**	**(849)**

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:

	2016		2015	
	$	%	$	%
Net income for the year from continuing operations attributable to the owners of the Corporation	9,750		37,018	
Income tax expense from continuing operations	(994)		24,719	
Income before income taxes	8,756	100.0	61,737	100.0
Income taxes at the statutory rate in Canada	2,320	26.5	16,360	26.5
Effect of:				
Impact of differences between statutory tax rates in Canada and U.S.	(1,129)	(12.9)	2,171	3.5
Other including non-taxable and non-deductible amounts	1,551	17.7	(1,067)	(1.7)
Change in value of exchangeable interest liability	1,097	12.5	5,201	8.4
Change in value of convertible debentures	395	4.5	(1,948)	(3.2)
Foreign exchange losses	(92)	(1.1)	248	0.4
Changes in previously recognized deferred tax asset	(5,136)	(58.7)	3,754	6.1
Income tax expense (recovery) from continuing operations	**(994)**	**(11.3)**	**24,719**	**40.0**

19. INCOME TAXES (Continued)

As of December 31, 2016, the Corporation had net operating loss carry forwards for Canadian tax purposes totalling $49,536 that are scheduled to expire in the following years:

	$
2028	7,417
2029	21,131
2030	19,946
2031	1,042
Net operating loss carry forwards	**49,536**

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, 2016, the Corporation has recognized deferred income tax assets of $13,127 in respect of net operating loss carry forwards that will be offset against future taxable income in the Canadian entity.

The components of deferred income tax balances are as follows:

	2016 $	2015 $
Deferred income tax assets		
Allowance for non-collectible receivable balance	1,354	1,398
Accrued liabilities and other	2,326	1,549
Goodwill and other intangibles	6,218	5,798
Cumulative change in the value of exchangeable interest liability	9,910	4,383
Net operating losses and deductions carry forwards	14,493	18,130
Total deferred income tax assets	**34,301**	**31,258**
Deferred income tax liabilities		
Property and equipment	(3,183)	(3,666)
Prepaid expenses and other	(111)	(110)
Goodwill and other intangibles	(15,295)	(13,445)
Total deferred income tax liabilities	**(18,589)**	**(17,221)**
Net deferred income tax assets	**15,712**	**14,037**

During the year, the Corporation recorded an additional $4,531 of deferred tax assets and a corresponding recovery in the statement of income and comprehensive income relating to accumulated immaterial prior period adjustments.

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

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

	2016 $	2015 $
Interest expense at Centers' level	1,696	1,144
Interest expense on convertible debentures	1,833	1,930
Interest expense at corporate level	742	-
Amortization of available credit facility stand-by fees	231	277
Interest income at Centers' level	(25)	(133)
Interest income at corporate level	(219)	(194)
Interest expense, net of interest income, from continuing operations	**4,258**	**3,024**

21. LOSS (GAIN) ON FOREIGN CURRENCY

Loss (gain) on foreign currency included in the statement of income and comprehensive income consists of the following:

	2016 $	2015 $
Realized loss on foreign exchange forward contracts which matured in the current period	-	6,475
Translation loss (gain) on cash balances denominated in Cdn$	(336)	2,139
	(336)	8,614
Change in unrealized gain on foreign exchange forward contracts	-	(3,627)
Loss (gain) on foreign currency	**(336)**	**4,987**

22. RELATED PARTY TRANSACTIONS AND BALANCES

22.1 Related party transactions

Certain Centers routinely enter into transactions with related parties for provision of services relating to the use of facilities and equipment. These parties are considered related as the Corporation has significant influence over these entities. 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 each of 2016 and 2015, SFSH paid South Dakota Interventional Pain Institute, LLC. (“SDIPI”) $659 for the use of a facility and related equipment. As of December 31, 2016, SFSH had a balance payable to SDIPI of $39 (December 31, 2015: $41). As at December 30, 2016, Mountain Plains Real Estate Holdings, LLC (“MPREH”), an entity over which the Corporation has significant influence, entered into an operating lease with a wholly owned subsidiary of BHSH. Total lease payments in 2016 were nil.

Key management and governance personnel are comprised of executive officers and the directors of the Corporation. Fees were paid for information systems consulting to a vendor which was closely related to a member of key management personnel for $6 and $7 for the years 2016 and 2015, respectively.

22.2 Equity accounted investments

On December 23, 2016, $678 of net assets, consisting primarily of property of $4,325, $3,075 of long-term debt, and $572 of non-controlling interest, were transferred from BHSH to a newly created entity, MPREH, at carrying value. The Corporation owns a 54.22% equity interest in MPREH, but does not control it as control is shared by three owners per MPREH’s operating agreement. The Corporation uses the equity method to account for this investment which is valued at $678 as of December 31, 2016.

The Corporation owns a 32.0% equity interest in another associate, SDIPI. 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 at December 31, 2016 were $455 and $81, respectively (December 31, 2015: $391 and $107). The Corporation also has a 0.35% ownership interest in an entity that holds an indirect interest in BHSH for a total investment of $341 (December 31, 2015: $341), for which the investment is accounted for at cost in the consolidated financial statements.

Together, the three investments comprise the ‘Other assets’ on the consolidated balance sheet.

22. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

22.3 Key management and governance compensation

Key management and governance compensation for the years 2016 and 2015 was as follows:

	2016 $	2015 $
Salaries and other short-term employee benefits for executive officers	1,648	1,913
Director compensation	948	1,014
Total key management and governance compensation	**2,596**	**2,927**

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.

22.4 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 a non-controlling interest in SFSH is its Chief Executive Officer.

23. COMMITMENTS AND CONTINGENCIES

23.1 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 and non-related parties.

23.2 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.

24. SHARE BASED COMPENSATION

At the Corporation's Annual and Special Meeting of Shareholders held on May 12, 2016, shareholders approved a grant of stock options to acquire 1,000,000 common shares of the Corporation to its Chief Executive Officer. The grant was effective May 1, 2016, and the stock options are exercisable at C$17.24 per share. On September 19, 2016, stock options to acquire 350,000 common shares of the Corporations were granted to its Chief Development Officer, exercisable at $21.15 per share. On November 21, 2016, stock options to acquire 425,000 common shares of the Corporations were granted to its Executive Vice President Finance, who was appointed Chief Financial Officer on January 1, 2017, exercisable at $17.98 per share. All three grants of the options (the "Options") will vest after five years of employment, subject to the Corporation's maintenance of a dividend rate not less than the rate in effect at the time of the grant date.

During the year ending at December 31, 2016, the Corporation recognized $181 relating to the Options in salaries and benefits expense in the statement of income and comprehensive income. The grant date fair value of the Options were measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at the grant date of the share-based compensation plan are as follows:

	Q4 2016 Grants Issued	Q3 2016 Grants Issued	Q2 2016 Grants Issued
Fair value of Options, grants and assumptions			
Fair value at grant date	C$ 1.37	C$ 2.00	C$ 1.33
Share price at grant date	C$18.19	C$21.57	C$17.01
Exercise price	C$17.98	C$21.15	C$17.24
Expected volatility (weighted average volatility)	21.77%	21.95%	23.60%
Option life (expected weighted average life)	5 years	5 years	5 years
Expected dividends	6.18%	5.22%	6.61%
Risk-free rate	0.99%	0.73%	1.03%

25. 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.

25.1 Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

25.2 Functional and presentation currency

The function and presentation currency as presented in these financial statement are in U.S. dollars.

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.

25.3 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.

25.4 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 and comprehensive income.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and comprehensive income.

25.5 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*.

Management of the Corporation has concluded that the operating segments of the Corporation meet the criteria for aggregation pursuant to IFRS 8, *Operating Segments* 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 services 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.

25.6 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 income and comprehensive income.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

25.7 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.

25.8 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.

25.9 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.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

25.10 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.

25.11 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

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.

25.12 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.

25.13 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, care networks and trade names. Other intangibles are stated at cost less accumulated amortization and accumulated impairment losses, when applicable.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
Non-compete agreements	5 years
Medical charts and records	5-10 years
Care networks	10-18 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.

25.14 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.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

25.15 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.

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, 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 financial assets are designated as loans and receivables and are carried at amortized cost using the effective interest rate method.

(iv) Other liabilities

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

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

25.16 Impairment of non-derivative financial assets

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

25.16.1 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 and comprehensive income.

25.16.2 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.

25.17 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.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

25.18 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.

25.19 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 a 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 and comprehensive income.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

25.20 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 and comprehensive income for the respective periods.

25.21 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. Facility 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. Revenues relating to IMD's third party business solution service are included in facility service revenue, and consist of fees for business services provided to healthcare entities, recorded as services are provided and collection is reasonably assured.

25.22 Income taxes

Income tax expense (recovery) consists of current and deferred taxes. Income tax expense (recovery) is recognized in the statement of income and 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.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

25.23 Share based payments

The Corporation has an equity settled, share-based compensation plan, under which the entity receives services from a key executive as consideration for the options of the Corporation. The fair value of the services received in exchange for the grants of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. When the options are exercised, the Corporation issues new shares. The proceeds received, together with the amount recorded in contributed surplus, are credited to share capital when the options are exercised.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of fully diluted earnings per share.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

25.24 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:

25.24.1 *IAS 7 Statement of Cash Flows*

As part of their disclosure initiative, the IASB has issued amendments to IAS 7 *Statement of Cash Flows* requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a company. The Corporation intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017.

25.24.2 *IAS 12 Income Taxes*

In January 2016, the IASB has issued amendments to IAS 12 *Income Taxes* to provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The Corporation intends to adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning January 1, 2017.

25.24.3 *IFRS 2 Share-Based Payments*

In September 2016, the IASB issued amendments to IFRS 2 *Share-Based Payments*. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Corporation intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018.

25.24.4 *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 financial statements for the annual period beginning on January 1, 2018.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

25.24.5 *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.

25.24.6 *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.

26. 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.

26.1 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 25.2), (ii) segment information (discussed in note 25.5), (iii) discontinued operations (discussed in notes 8 and 25.6), (iv) recognition of deferred tax assets and liabilities (discussed in notes 19 and 25.22).

26 USE OF JUDGMENTS AND ESTIMATES (Continued)

26.2 Estimates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2016 is included in the following notes: (i) timing of recognition of facility service revenue (discussed in note 25.21) and recovery of accounts receivable (discussed in notes 16.5.2 and 25.9), (ii) valuation of supply inventory (discussed in note 25.10), (iii) useful lives of property and equipment (note 25.11) and other intangibles (notes 10.2 and 25.13), (iv) fair value measurements and valuation of financial instruments (discussed in notes 16 and 25.17), (v) key assumptions regarding the valuation of acquired and disposed assets and liabilities, primarily goodwill and other intangibles (discussed in notes 10.1 and 25.13), (vi) impairment test, including key assumptions underlying the recoverable amounts of goodwill and other intangibles (discussed in notes 10.3 and 25.14), (vii) provision for potential liabilities and contingencies and the assessment of the likelihood and magnitude of outflow of resources (discussed in note 25.18) 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 19 and 25.22).