Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

December 31, 2017 and 2016
(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.

"Robert O. Horrar"

Robert O. Horrar
Chief Executive Officer

"Tyler C. Murphy"

Tyler C. Murphy
Chief Financial Officer

Toronto, Canada
March 21, 2018

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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, 2017 and December 31, 2016, 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

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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, 2017 and December 31, 2016, its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
March 21, 2018
Toronto, Canada

MEDICAL FACILITIES CORPORATION

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

	Note	December 31, 2017 $	2016 $
ASSETS			
Current assets			
Cash and cash equivalents		56,029	51,014
Restricted cash		-	6,437
Short-term investments		8,934	8,569
Accounts receivable	12.5.2	63,476	61,058
Supply inventory		6,772	6,252
Prepaid expenses and other		6,429	6,011
Income tax receivable	15	1,881	-
Total current assets		**143,521**	**139,341**
Non-current assets			
Long-term investments		-	1,613
Deferred income tax assets	15	7,993	15,712
Property and equipment	5	95,072	94,893
Goodwill	6.1	125,181	136,920
Other intangibles	6.2	86,193	102,427
Other assets	17.1	1,628	1,555
Total non-current assets		**316,067**	**353,120**
TOTAL ASSETS		**459,588**	**492,461**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		2,327	2,168
Accounts payable		23,669	21,609
Accrued liabilities		18,603	20,572
Income tax payable	15	-	202
Corporate credit facility		47,750	-
Current portion of long-term debt	7	17,326	20,818
Total current liabilities		**109,675**	**65,369**
Non-current liabilities			
Corporate credit facility	7	-	47,750
Long-term debt	7	47,732	56,094
Deferred income liabilities	15	1,013	-
Convertible debentures	8	33,533	32,102
Exchangeable interest liability	12.2	67,107	77,034
Total non-current liabilities		**149,385**	**212,980**
Total liabilities		**259,060**	**278,349**
Equity			
Share capital	9	396,428	397,522
Contributed surplus	21	522	181
Deficit		(255,284)	(248,994)
Equity attributable to owners of the Corporation		141,666	148,709
Non-controlling interest	10	58,862	65,403
Total equity		**200,528**	**214,112**
Commitments and contingencies	19		
TOTAL LIABILITIES AND EQUITY		**459,588**	**492,461**

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**		
		$	**$**	**$**	**$**	**$**	**$**
2017							
Balance at January 1, 2017		397,522	181	(248,994)	148,709	65,403	214,112
Net income and comprehensive income for the year		-		20,637	20,637	25,942	46,579
Share-based compensation	21	-	341	-	341	-	341
Dividends to owners of the Corporation		-	-	(26,927)	(26,927)	-	(26,927)
Distributions to non-controlling interest		-	-	-	-	(32,306)	(32,306)
Contributions by ASH Urgent Care Center non-controlling interest	18	-	-	-	-	68	68
Step-up investment in RRIMH		-	-	-	-	(245)	(245)
Purchase of common shares under normal course issuer bids	9.3	(1,094)	-	-	(1,094)	-	(1,094)
Balance at December 31, 2017		**396,428**	**522**	**(255,284)**	**141,666**	**58,862**	**200,528**
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	21	-	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		-	-	-	-	17,012	17,012
Acquisition of Integrated Medical Delivery, L.L.C.		-	-	-	-	1,681	1,681
Purchase of common shares under normal course issuer bids	9.3	(644)	-	-	(644)	-	(644)
Balance at December 31, 2016		**397,522**	**181**	**(248,994)**	**148,709**	**65,403**	**214,112**

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, 2017 $	2016 $
Facility service revenue		**385,329**	**339,472**
Operating expenses			
Salaries and benefits		108,449	95,774
Drugs and supplies		114,960	99,632
General and administrative expenses		67,273	53,362
Impairment of goodwill	6.3	8,400	-
Depreciation of property and equipment	5	11,512	9,255
Amortization of other intangibles	6.2	16,234	13,376
		326,828	**271,399**
Income from operations		**58,501**	**68,073**
Finance costs			
Increase in value of convertible debentures	8	1,431	1,488
Increase (decrease) in value of exchangeable interest liability	12.2	(9,927)	15,353
Interest expense on exchangeable interest liability	12.2	8,692	8,616
Interest expense, net of interest income	16	5,892	4,258
Gain on foreign currency		(701)	(336)
		5,387	**29,379**
Income before income taxes		**53,114**	**38,694**
Income tax expense (recovery)	15	6,535	(994)
Income for the period from continuing operations		**46,579**	**39,688**
Discontinued operation			
Income for the period from discontinued operation, net of tax		**-**	**6**
Net income and comprehensive income for the year		**46,579**	**39,694**
Attributable to:			
Owners of the Corporation		20,637	9,754
Non-controlling interest	10	25,942	29,940
		46,579	**39,694**
Earnings per share			
From continuing and discontinued operations			
Basic	9.2	$ 0.67	$ 0.31
Fully diluted	9.2	$ 0.54	$ 0.30
From continuing operations			
Basic	9.2	$ 0.67	$ 0.31
Fully diluted	9.2	$ 0.54	$ 0.30

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, 2017 $	2016 $
Cash flows from operating activities			
Net income for the year		46,579	39,694
Adjustments for:			
Depreciation of property and equipment	5	11,512	9,255
Amortization of other intangibles	6.2	16,234	13,376
Impairment of goodwill	6.3	8,400	-
Share of equity income in associates	17.1	(107)	(123)
Change in value of convertible debentures	8	1,431	1,488
Change in value of exchangeable interest liability	12.2	(9,927)	15,353
Gain on foreign currency		(701)	(336)
Loss on disposal of property and equipment		499	-
Income tax expense (recovery)	15	6,535	(994)
Share-based compensation	21	341	181
Interest expense, net of interest income		14,584	12,874
		95,380	90,768
Changes in non-cash operating working capital	11	(926)	1,723
		94,454	92,491
Interest paid, net of received		(14,584)	(12,874)
Income and withholding taxes received (paid)		116	(1,327)
Net cash provided by operating activities		**79,986**	**78,290**
Cash flows from investing activities			
Purchase of property and equipment	5	(11,190)	(43,704)
Business combinations	4	(245)	(33,260)
Redemption of short-term and long-term bank investments		1,248	2,793
Net cash used in investing activities		**(10,187)**	**(74,171)**
Cash flows from financing activities			
Net proceeds from revolving credit facilities and issuance of notes payable		2,030	57,470
Repayments of notes payable at the facilities and IMD		(13,885)	(4,016)
Distributions, return of capital and loan receivable from an associate	17.1	33	78
Investment in Black Hills Surgical Hospital, LLP by non-controlling interest		-	572
Investment in ASH Urgent Care Center by non-controlling interest	18	68	-
Distributions to non-controlling interest	10	(32,306)	(32,058)
Dividends paid		(26,768)	(26,375)
Purchase of common shares under the terms of normal course issuer bids	9.3	(1,094)	(644)
Net cash used in financing activities		**(71,922)**	**(4,973)**
Decrease in cash and cash equivalents		**(2,123)**	**(854)**
Effect of exchange rate fluctuations on cash balances held		701	336
Cash and cash equivalents, beginning of the year		57,451	57,969
Cash and cash equivalents, end of the year		**56,029**	**57,451**
Non-cash transactions:			
Investment in equity accounted investees	17.1	-	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 five specialty hospitals and one ambulatory surgery center (the “Facilities”). The Corporation also owns 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, and 92% of RRI Mishawaka Hospital, LP (“RRIMH”), an entity which owns the land and building for one of its facilities.

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

		Ownership Interest December 31,	
Facilities	**Location**	**2017**	**2016**
Arkansas Surgical Hospital, LLC (“ASH”)	North Little Rock, Arkansas	51.0%	51.0%
Unity Medical and Surgical Hospital (“UMASH”)	Mishawaka, Indiana	62.0%	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			
RRI Mishawaka Hospital, LP (“RRIMH”)	Mishawaka, Indiana	92.0%	84.0%
Integrated Medical Delivery, L.L.C. (“IMD”)	Oklahoma City, Oklahoma	51.0%	51.0%

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee. The Corporation’s significant accounting policies are presented in note 22 to these consolidated financial statements.

These consolidated financial statements were approved for issue by the Corporation’s Board of Directors on March 21, 2018.

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 22.13).

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. BUSINESS COMBINATIONS

4.1 Prairie States Surgical Center, L.L.C.

On October 3, 2016, SFSH acquired 100% of Prairie States Surgical Center, L.L.C. ("PSSC") 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 final purchase price allocation as at December 31, 2017 is as follows:

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

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 five years. Approximately $142 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.

4. BUSINESS COMBINATIONS (Continued)

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.

4.2 Unity Medical and Surgical Hospital

On September 23, 2016, the Corporation acquired an indirect 62.0% controlling interest in 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 49,000 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.

Changes have been made to the final purchase price allocation versus the preliminary figures presented as at December 31, 2016, resulting in a decrease in goodwill from $12,215 to $8,876, a decrease in accrued liabilities and other liabilities from $8,444 to $6,105, and an increase in property and equipment from $2,257 to $3,257. The final purchase price allocation as at December 31, 2017 is as follows:

	2017	2016
	$	$
Cash	786	786
Accounts receivable	11,653	11,653
Prepaid expenses and other	1,023	1,023
Property and equipment	3,257	2,257
Goodwill	8,876	12,215
Other intangibles	44,500	44,500
Accounts payable	(3,358)	(3,358)
Accrued liabilities and other liabilities	(6,105)	(8,444)
Long-term debt	(15,870)	(15,870)
Non-controlling interest	(17,012)	(17,012)
Fair value of net assets acquired	**27,750**	**27,750**

4. BUSINESS COMBINATIONS (Continued)

Other intangibles principally represent the values of the care network at UMASH that will be amortized over estimated useful lives of 13-18 years. 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 December 31, 2016.

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

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.

4.3 RRI Mishawaka Hospital LP

On July 15, 2016, 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 92% interest and the remaining 8% interest in the partnership is held indirectly by Rainier Realty Investments, LP, a third party. The Corporation originally owned an 84% ownership interest in RRIMH, acquiring a further 8% interest on July 27, 2017 for $245. 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.

4.4 Integrated Medical Delivery, L.L.C.

On January 14, 2016, the Corporation acquired a 51% controlling interest in 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.

4. BUSINESS COMBINATIONS (Continued)

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.

5. PROPERTY AND EQUIPMENT

	Land and Improvements	Construction in Progress	Building and Improvements	Equipment and Furniture	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2016	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
Additions	38	(3,673)	6,591	8,234	11,190
Disposals	-	-	(788)	(1,364)	(2,152)
Adjustment to UMASH purchase price	-	-	-	1,000	1,000
Balance at December 31, 2017	**7,350**	**1,142**	**99,600**	**66,336**	**174,428**
Accumulated Depreciation					
Balance at January 1, 2016	(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)
Charged for the year	(26)	-	(3,849)	(7,637)	(11,512)
Disposals	-	-	289	1,364	1,653
Balance at December 31, 2017	**(142)**	**-**	**(32,756)**	**(46,458)**	**(79,356)**
Carrying Amounts					
At December 31, 2016	7,196	4,815	64,601	18,281	94,893
At December 31, 2017	**7,208**	**1,142**	**66,844**	**19,878**	**95,072**

5. PROPERTY AND EQUIPMENT (Continued)

Included in the equipment and furniture for the years 2017 and 2016 is certain equipment under finance lease agreements as follows:

	2017 $	2016 $
Equipment	4,123	7,952
Less accumulated depreciation	(3,370)	(5,896)
Total	**752**	**2,056**

6. GOODWILL AND OTHER INTANGIBLES

6.1 Goodwill

The carrying amount of goodwill as at December 31, 2017 was $125,181 (2016: $136,920), with $3,339 of the decline due to the finalization of the UMASH purchase price allocation (note 4), and a reduction of of $8,400 due to impairments in goodwill for the UMASH and RRIMH cash generating unit ("CGU") of $7,000 and the IMD CGU of $1,400 (note 6.3).

6.2 Other intangibles

	Hospital Operating Licenses	Medical Charts and Records	Care Network	Trade Names	Non-Compete	Total
	$	$	$	$	$	$
Cost						
Balance at January 1, 2016	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
Balance at December 31, 2017	**2,576**	**7,599**	**239,123**	**9,128**	**1,200**	**259,626**
Accumulated Amortization						
Balance at January 1, 2016	(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)
Amortization charges	(418)	(227)	(15,350)	-	(239)	(16,234)
Balance at December 31, 2017	**(1,754)**	**(7,434)**	**(163,946)**	**-**	**(299)**	**(173,433)**
Carrying Amounts						
At December 31, 2016	1,240	392	90,527	9,128	1,140	102,427
At December 31, 2017	**822**	**165**	**75,177**	**9,128**	**901**	**86,193**
Amortization period (years)	5	5-10	10-18	N/A (indefinite life)	5	

6. GOODWILL AND OTHER INTANGIBLES (Continued)

6.3 Impairment

The Corporation performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2017 and December 31, 2016. The Corporation concluded that the goodwill asset was impaired in the UMASH/RRIMH CGU and the IMD CGU. For the UMASH/RRIMH CGU, a charge of $7,000 was recorded, of which $2,660 relates to the 38% non-controlling interest owners, for the year ended December 31, 2017. For the IMD CGU, an impairment charge of $1,400 was recorded, of which $686 relates to the 49% non-controlling interest owners, for the year ended December 31, 2017.

The Corporation identified seven 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.

The UMASH and RRIMH CGU contains the assets of two separate subsidiaries of the Corporation, because the assets of RRIMH consist of the land and building of the UMASH's primary facility, making the two entities interdependent. The remaining CGUs represent subsidiary operations which are independent of each other, and therefore identified as separate CGUs.

For the December 31, 2017 impairment test, enterprise value to EBITDA multiples of 8.0 to 9.0 (2016: 7.0 to 9.5) 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.

For the year ended December 31, 2017, the recoverable amount of the CGUs was based on fair value less cost to sell ("FVLCS").

The FVLCS of the UMASH/RRIMH CGU was determined by discounting the future cash flows generated from continuing use. Cash flows for fiscal 2018 to fiscal 2023 were projected based on past experience, actual operating results normalized for non-routine items, and budget projections, with revenue growth rates over five years ranging from 3.9% - 9.5% based on a projection of the number of cases and revenue per case, with a terminal growth rate of 3%. Projected cash flows were discounted using a pre-tax rate of 12.0%. The discount rate was estimated based on a weighted average cost of capital which is based on a risk-free rate, plus various risk premiums including a size premium and a specific company risk premium.

6. GOODWILL AND OTHER INTANGIBLES (Continued)

To ensure reasonableness of recoverable amounts, management reconciles the recoverable amounts of its CGUs to the enterprise value of the Corporation as at December 31 based on (i) the market capitalization of the outstanding common shares, taking into account a 20% equity control premium attributable to the common shares, (ii) the fair value of convertible debentures outstanding, and (iii) the Corporation's portion of the Facilities' and IMD's long-term debt, less (iv) cash on hand.

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

	Years Ended December 31,	
	2017 **$**	**2016** **$**
ASH	17,911	17,911
UMASH	1,876	12,215
OSH	17,436	17,436
BHSH	31,244	31,244
SFSH	60,896	60,896
SCNC	2,264	2,264
IMD	2,682	4,082
	134,309	**146,048**

7. LONG-TERM DEBT

	December 31,					
	2017				2016	
	Authorized	**Balance**	**Effective Interest Rate**	**Maturity**	**Balance**	**Effective Interest Rate**
	$	**$**	**%**		**$**	**%**
Revolving credit facilities						
ASH	4,000	473	3.5	May 31, 2019	-	3.5
UMASH	-	-	-		4,000	3.8
OSH	6,350	2,000	LIBOR+2.6	April 4, 2019	2,750	LIBOR+2.6
BHSH	6,000	-	LIBOR+1.3	Jul 1, 2019	-	LIBOR+1.3
SFSH	7,000	2,625	LIBOR+1.0	Oct 1, 2018	4,101	LIBOR+1.0
SFSH	7,100	1,514	LIBOR+1.0	Dec 31, 2018	-	-
SFSH	1,500	187	LIBOR+1.1	Dec 31, 2018	-	-
SCNC	2,500	-	LIBOR+3.5	Jul 31, 2019	-	LIBOR+3.5
	34,450	**6,799**			**10,851**	
Corporate credit facility						
MFC	**80,000**	**47,750**	Prime +0.3	**Dec 31, 2018**	**47,750**	Prime +0.3
Notes payable						
ASH		950	4.3	Oct 31, 2021	1,136	4.3
UMASH		-	-	-	10,887	3.3
UMASH		5,988	4.8	Jun 23, 2020	-	-
BHSH		1,391	2.8	Sep 1, 2020	1,871	2.8
BHSH		2,257	3.0	Aug 1, 2018	2,368	3.0
BHSH		694	3.0	Aug 1, 2018	804	3.0
BHSH		484	3.7	Dec 31, 2021	555	3.7
BHSH		4,385	3.0	Dec 31, 2019	4,940	3.0
BHSH		4,595	3.0	Jun 30, 2021	4,867	2.9
BHSH		1,734	4.0	May 10, 2027	-	-
SFSH		14,600	2.9	Dec 31, 2019	15,328	2.9
SFSH		3,926	3.1	Dec 31, 2019	3,077	3.1
SFSH		1,661	3.2	Mar 17, 2022	312	3.2
SFSH		12,658	1.9	Oct 1, 2021	15,723	1.9
IMD		915	4.8	Jun 30, 2021	1,163	4.8
		56,238			**63,031**	
Capital leases						
ASH		199	4.0 – 6.7	2018 – 2020	374	5.5
UMASH		133	5.7	2018 – 2020	240	5.7
SFSH		1,689	2.3 – 2.9	2018 – 2021	2,416	2.3
		2,021			**3,030**	
		112,808			**124,662**	
Less current portion		(65,076)			(20,818)	
		47,732			**103,844**	

7. 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 Facility and IMD. These credit facilities and notes payable contain certain restrictive financial and non-financial covenants. As at December 31, 2017, the Facilities and IMD 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:

	$
2018	65,076
2019	31,580
2020	6,438
2021	8,549
2022	1,165
Future maturities of long-term debt	**112,808**

8. CONVERTIBLE DEBENTURES

On December 21, 2012, the Corporation issued, in a public offering, Cdn$41,800 (US$42,042) aggregate principal amount of 5.9% convertible unsecured subordinated debentures ("convertible debentures"). The convertible debentures pay interest semi-annually in arrears on June 30 and December 31 of each year, mature on December 31, 2019 ("Maturity Date"), and are convertible into 52.3286 common shares per Cdn$1,000 principal amount of convertible debentures at the option of the holder, representing a conversion price of Cdn$19.11 per common share ("Conversion Price"). If the holders of the convertible debentures do not exercise the right to convert their holdings into the Corporation's common shares prior to the Maturity Date, the principal amount is due and payable in full. The convertible debentures are subordinate to all other existing and future senior unsecured indebtedness of the Corporation.

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

8. CONVERTIBLE DEBENTURES (Continued)

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 following table represents changes in the convertible debentures for the years 2017 and 2016:

	$
Balance at January 1, 2016	30,614
Increase in fair value of convertible debentures at market price	1,488
Balance at December 31, 2016	32,102
Increase in fair value of convertible debentures at market price	1,431
Balance at December 31, 2017	**33,533**

9. SHARE CAPITAL

9.1 Share capital

The following table represents changes in the number and value of common shares issued and outstanding for the years 2017 and 2016:

	Number of Common Shares	$
Balance at January 1, 2016	31,113,445	398,166
Common shares purchased and cancelled under the terms of normal course issuer bids (note 10.3)	(67,500)	(644)
Balance at December 31, 2016	31,045,945	397,522
Common shares purchased and cancelled under the terms of normal course issuer bids (note 10.3)	(95,600)	(1,094)
Balance at December 31, 2017	**30,950,345**	**396,428**

9.2 Earnings per share

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

		Year Ended December 31, 2017			Year Ended December 31, 2016		
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income for the year attributable to owners of the Corporation	$	20,637	-	20,637	9,750	4	9,754
Divided by weighted average number of common shares outstanding for the year		31,002,972	31,002,972	31,002,972	31,050,084	31,050,084	31,050,084
Basic earnings per share attributable to owners of the Corporation	**$**	**0.67**	**-**	**0.67**	**0.31**	**-**	**0.31**

9. SHARE CAPITAL (Continued)

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

		Year Ended December 31, 2017			Year Ended December 31, 2016		
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income for the year attributable to owners of the Corporation	$	20,637	-	20,637	9,750	4	9,754
Decrease (decrease) in value of convertible debentures		-	-	-	-	-	-
Interest expense on convertible debentures (tax effected)		-	-	-	-	-	-
Decrease in value of exchangeable interest liability (tax effected)		(6,353)	-	(6,353)	-	-	-
Interest expense on exchangeable interest liability		5,563	-	5,563	-	-	-
Modified net income for the year attributable to owners of the Corporation	$	19,847	-	19,847	9,750	4	9,754
Divided by weighted average number of common shares:							
Outstanding for the year		31,002,972	-	31,002,972	31,050,084	-	31,050,084
Deemed to be issued on the conversion of the outstanding convertible debentures		-	-	-	-	-	-
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		5,908,115	-	5,908,115	-	-	-
Deemed to be issued as share based compensation		-	-	-	1,775,000	-	1,775,000
Weighted average number of common shares [(1) (2)]		36,911,087	-	36,911,087	32,825,084	-	32,825,084
Fully diluted earnings per share	**$**	**0.54**	**-**	**0.54**	**0.30**	**-**	**0.30**

[(1)] *For the year ended December 31, 2017, the impact of convertible debentures was excluded from the dilutive weighted average number of ordinary shares calculation because its effect would have been anti-dilutive.*

[(2)] *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.*

9. SHARE CAPITAL (Continued)

9.3 Normal course issuer bids

The Corporation's current normal course issuer bid for up to 620,918 of its common shares, is in effect from May 16, 2017 to May 15, 2018. During the year ended December 31, 2017, the Corporation purchased 95,600 of its common shares for a total consideration of $1,094 from the open market. During the year ended December 31, 2016, the Corporation purchased 67,500 of its common shares for $644, 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.

10. NON-CONTROLLING INTEREST

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

December 31, 2017	ASH $	UMASH $	OSH $	BHSH $	SFSH $	SCNC $	IMD $	RRIMH $
Non-controlling interest percentage	**44%**	**38%**	**35%**	**35%**	**35%**	**49%**	**49%**	**8%**
Current assets	8,970	13,001	13,790	15,583	31,662	2,929	1,177	507
Non-current assets	6,325	1,604	3,185	30,407	48,413	750	330	26,400
Current liabilities	8,537	10,241	5,946	14,638	23,119	387	413	547
Non-current liabilities	848	15,790	2,218	13,931	29,522	0	915	27,265
Equity attributable to owners of the Corporation	3,310	(7,084)	5,727	11,324	17,832	1,679	100	(507)
Non-controlling interest	2,601	(4,342)	3,084	6,097	9,602	1,613	78	(398)
Facility service revenue	70,600	37,546	64,331	88,263	114,143	8,294	5,024	2,211
Operating expenses	55,103	39,765	55,016	63,577	71,878	6,307	4,658	670
Net income attributable to owners of the Corporation	8,639	(1,848)	6,001	15,729	26,907	1,013	162	(589)
Net income attributable to non-controlling interest	6,787	(1,133)	3,231	8,470	14,489	973	155	(51)
Net income (loss)	**15,426**	**(2,981)**	**9,232**	**24,199**	**41,396**	**1,986**	**317**	**(640)**
Distributions to non-controlling interest	7,062	-	3,496	8,579	11,935	1,110	71	-
Cash flows from operating activities	14,258	2,721	10,677	27,519	42,935	2,162	464	24
Cash flows from investing activities	(1,447)	(561)	(476)	(3,311)	(4,789)	(28)	(149)	-
Cash flows from financing activities [(1)]	(15,938)	(2,090)	(10,738)	(24,454)	(36,197)	(2,053)	(248)	-
Net cash inflow (outflow)	**(3,127)**	**70**	**(537)**	**(246)**	**1,949**	**81**	**67**	**24**

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

10. NON-CONTROLLING INTEREST (Continued)

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 (loss)	**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.

10.1 Significant restrictions

With the exception of UMASH, the partnership or operating agreements governing each of the respective Facilities (each, a “Partnership Agreement”) in certain circumstances do not permit the Corporation to access the assets of the Facilities to settle the liabilities of other subsidiaries of the Corporation, and the Facilities 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 Facility are limited to representation on the management committee and approval rights over certain fundamental decisions. The Partnership Agreements require that each Facility distribute its available cash to the maximum extent possible, subject to applicable law and compliance with their existing credit facilities, by way of monthly distributions on its partnership interests or other distributions on its securities, after (i) satisfying its debt service obligations under its credit facilities or any other agreements with third parties, (ii) satisfying its other expense obligations, including withholding and other applicable taxes, and (iii) retaining reasonable working capital or other reserves, including amounts on account of capital expenditures and such other amounts as may be considered appropriate by its management committee.

11. NET CHANGES IN NON-CASH WORKING CAPITAL

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

	Years Ended December 31,	
	2017 $	2016 $
Accounts receivable	(2,418)	144
Supply inventory	(520)	(79)
Prepaid expenses and other	(418)	(692)
Accounts payable	2,060	(1,008)
Accrued liabilities	370	3,358
Net changes in non-cash working capital	**(926)**	**1,723**

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 Foreign exchange forward contracts

At December 31, 2017 and December 31, 2016, the Corporation did not hold any foreign exchange forward contracts.

12.2 Exchangeable interest liability

Concurrent with the acquisition of its interests in the Facilities 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 Facilities. Pursuant to the terms of these exchange agreements, the non-controlling interest holders in each of the Facilities received the right to exchange a portion of their interest (“Exchangeable Interest”) in their respective Facilities 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 Facilities over the prior twelve months. The exchange agreements between the Corporation and the non-controlling interest holders in each of the Facilities contain the details of the exchange rights.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

(i) The exchange right is considered to have been fully exchanged at the original dates of acquisition of each of the four Facilities in which Exchangeable Interest is held, resulting in the purchase of a further 14% interest in each such Facility, 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 Facilities. 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 Facility.

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

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

The number of common shares to be potentially issued for the exchangeable interest liability and the fair value of the exchangeable interest liability as at December 31, 2017 and December 31, 2016 are as follows:

	December 31,	
	2017	**2016**
Number of common shares to be potentially issued for exchangeable interest liability	5,929,304	5,886,925
Fair value of the exchangeable interest liability in thousands of U.S. dollars	US$ 67,107	US$ 77,034
Fair value of the exchangeable interest liability in thousands of Canadian dollars	Cdn$ 84,374	Cdn$103,433

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.3 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 Facilities' 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, 2017 and December 31, 2016:

	December 31,	
	2017 **$**	**2016** **$**
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	56,029	51,014
Restricted cash	-	6,437
Held-to-maturity (carried at amortized cost)		
Short-term investments	8,934	8,569
Long-term investments	-	1,613
Loans and receivable (carried at amortized cost)		
Accounts receivable	63,476	61,058
Financial liabilities		
Fair value through profit or loss		
Convertible debentures	33,533	32,102
Exchangeable interest liability	67,107	77,034
Other liabilities (carried at amortized cost)		
Dividends payable	2,327	2,168
Accounts payable	23,669	21,609
Accrued liabilities	18,603	20,572
Corporate credit facility	47,750	-
Long-term debt	65,058	124,662

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The financial instruments of the Corporation that are recorded at fair value have been classified into levels using a fair value hierarchy (note 22.15). The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at fair value as of December 31, 2017 and December 31, 2016. It does not include fair value information for financial instruments not measured at fair value and short-term in nature.

	December 31, 2017			
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Financial assets				
Cash and cash equivalents	56,029	-	-	56,029
Short-term investments	8,934	-	-	8,934
Financial liabilities				
Convertible debentures	33,533	-	-	33,533
Exchangeable interest liability	-	67,107	-	67,107
Corporate credit facility	47,750			47,750
Long-term debt	65,058	-	-	65,058
Total	**211,304**	**67,107**	**-**	**278,411**

	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
Long-term debt	124,662	-	-	124,662
Total	**217,960**	**77,034**	**-**	**294,994**

12.4 Measurement of fair values

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

Financial Instrument	**Valuation Technique**
Exchangeable interest liability	*Market comparison technique:* The number of the Corporation's common shares to issue is based on the contractual agreements with the holders of non-controlling interest that have exchange agreements with the Corporation and take into account the distributions to the non-controlling interest over the prior twelve months. The liability is valued based on the market price of the Corporation's common shares converted to the reporting currency as of the reporting date.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5 Financial risk management

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

12.5.1 Foreign Exchange Risk

Dividends to common shareholders of the Corporation, exchangeable interest liability, interest on convertible debentures and a portion of the Corporation's expenses are settled in Canadian dollars while all of its revenues are in U.S. dollars. To mitigate this risk, from time to time, the Corporation may enter into foreign exchange forward contracts to economically hedge its exposure to the fluctuation of the exchange rate between U.S. and Canadian dollars. The Corporation has foreign exchange hedging policies in place and the execution of these policies is monitored by the Audit Committee of the Board of Directors. As at December 31, 2017, 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	2017 $	2016 $
1% strengthening of the Canadian dollar	(1,250)	(372)
1% weakening of the Canadian dollar	1,250	372

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5.2 Credit Risk

The Corporation faces the following credit risks.

Revenue and Accounts Receivable

The Facilities 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 Facilities in accordance with the contracts with such companies (see note 22.19).

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 Facilities' history with these payors.

12. 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 2017 and 2016:

	2017		2016	
	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)	30.7	13.2	28.7	13.4
Blue Cross and Blue Shield – category (ii)	32.1	32.6	35.1	34.7
Workers' compensation – category (ii)	7.8	9.6	8.0	8.3
Other private insurance – category (iii)	21.3	25.1	19.7	28.9
Other insurance and self-pay – categories (iv) and (v)	8.1	19.5	8.5	14.7
	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, 2017 and December 31, 2016:

Accounts receivable	2017 $	2016 $
Neither past due nor impaired	52,201	49,983
Past due 61-90 days	6,053	5,918
Past due 91-120 days	2,726	3,211
Past due 121-150 days	1,966	1,370
Past due more than 151 days	9,250	7,745
Allowance for non-collectible receivable balances	(8,720)	(7,169)
Net accounts receivable	**63,476**	**61,058**

12. 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.

12.5.3 Interest Rate Risk

The Corporation and the individual Facilities 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, 2017 and December 31, 2016 was:

	December 31,	
	2017 $	2016 $
Facilities with fixed interest rates	58,731	66,673
Facilities with variable interest rates	54,076	57,989
Total	**112,807**	**124,662**

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 $57 (2016: $84) on facilities with variable interest rates. This does not include the impact of the adjustment of fair value of the convertible debentures since these are fixed-rate instruments.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5.4 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.

12.5.5 Liquidity Risk

The mandatory repayments under the credit facilities, notes payable, and other contractual obligations and commitments including expected interest payments, on a non-discounted basis, as of December 31, 2017, are as follows:

		Future payments (including principal and interest)				
Contractual Obligations	**Carrying values at Dec 31, 2017 $**	**Total $**	**Less than 1 year $**	**1-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	2,327	2,327	2,327	-	-	-
Accounts payable	23,669	23,669	23,669	-	-	-
Accrued liabilities	18,603	18,603	18,603	-	-	-
Corporate credit facility	47,750	49,779	49,779	-	-	-
Facilities' revolving credit facilities	6,799	7,021	4,862	2,159	-	-
Notes payable and term loans	56,238	59,214	13,246	36,361	8,691	916
Finance lease obligation	2,021	2,097	887	902	308	-
Convertible debentures	33,533	37,489	1,978	35,511	-	-
Operating leases and other commitments (not recorded in the financial statements)	-	76,023	7,758	12,950	11,518	43,797
Total contractual obligations	**190,940**	**276,222**	**123,109**	**87,883**	**20,517**	**44,713**

The $80,000 corporate credit facility, which matures on December 31, 2018, had $32,250 undrawn as at December 31, 2017.

The Corporation anticipates renewing, extending or replacing its revolving credit facilities which fall due during 2018 and expects that cash flows from operations and working capital will be adequate to meet future payments on other contractual obligations during 2018.

13. CAPITAL

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

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

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

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, 2017, the Corporation returned capital to shareholders through the repurchase and cancellation of 95,600 common shares under the normal course issuer bids for $1,094 (note 10.3). During the year ended December 31, 2016, the Corporation repurchased and cancelled 67,500 of common shares for $644 under the same program.

14. EMPLOYEE FUTURE BENEFITS

Benefits programs at the subsidiaries include qualified 401(k) retirement plans which cover all employees who meet eligibility requirements. Each participating Facility makes matching contributions subject to certain limits. In 2017, contributions made by the subsidiaries to such plans were $2,069 (2016: $2,203).

15. INCOME TAXES

The U.S. tax return for the Corporation is prepared on a consolidated basis for U.S. entities and includes balances and amounts attributable to these entities. The *Tax Cuts and Jobs Act* (“TCJA”), which took effect January 1, 2018 for the Corporation, reduced the United States federal corporate income tax rate to 21 percent from the Corporation’s effective federal tax rate of 34 percent. The Corporation has used figures based on the pre-existing rate to prepare its current tax provision but revised figures reflecting the new enacted rate for the determination of its deferred tax balances, for the year ended December 31, 2017.

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	2017 $	2016 $
Current	(2,199)	675
Deferred	8,734	(1,669)
Total income tax expense (recovery) from continuing operations	**6,535**	**(994)**

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	2017 $	2016 $
Income tax instalments deposited	318	473
Provision for current income taxes	(2,199)	(675)
Income tax payable (receivable)	**(1,881)**	**(202)**

15. INCOME TAXES (Continued)

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

	2017		2016	
	$	%	$	%
Net income for the year from continuing operations attributable to the owners of the Corporation	20,637		9,750	
Income tax expense (recovery) from continuing operations	6,535		(994)	
Income before income taxes	27,172	100.0	8,756	100.0
Income taxes at the statutory rate in Canada	7,200	26.5	2,320	26.5
Effect of:				
Impact of differences between statutory tax rates in Canada and U.S.	546	2.0	(1,129)	(12.9)
Other including non-taxable and non-deductible amounts	(1,747)	(6.4)	1,551	17.7
Impact of U.S. tax reform (TCJA)	(508)	(1.9)	-	-
Change in value of exchangeable interest liability	815	3.0	1,097	12.5
Change in value of convertible debentures	379	1.4	395	4.5
Foreign exchange losses	(150)	(0.6)	(92)	(1.1)
Changes in previously recognized deferred tax asset	-	-	(5,136)	(58.7)
Income tax expense (recovery) from continuing operations	**6,535**	**24.0**	**(994)**	**(11.3)**

As of December 31, 2017, the Corporation had net operating loss carry forwards for Canadian tax purposes totalling $29,366 that are scheduled to expire in the following years:

	$
2029	6,952
2030	21,301
2031	1,113
Net operating loss carry forwards	**29,366**

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, 2017, the Corporation has recognized deferred income tax assets of $7,782 in respect of net operating loss carry forwards that will be offset against future taxable income in the Canadian entity.

15. INCOME TAXES (Continued)

The components of deferred income tax balances are as follows:

	2017 $	2016 $
Deferred income tax assets		
Allowance for non-collectible receivable balance	939	1,354
Accrued liabilities and other	2,059	2,326
Goodwill and other intangibles	4,265	6,218
Cumulative change in the value of exchangeable interest liability	4,224	9,910
Net operating losses and deductions carry forwards	8,328	14,493
Total deferred income tax assets	**19,815**	**34,301**
Deferred income tax liabilities		
Property and equipment	(1,919)	(3,183)
Prepaid expenses and other	(73)	(111)
Goodwill and other intangibles	(10,843)	(15,295)
Total deferred income tax liabilities	**(12,835)**	**(18,589)**
Net deferred income tax assets	**6,980**	**15,712**

16. 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:

	2017 $	2016 $
Interest expense at Facilities' and IMD's level	1,806	1,696
Interest expense on convertible debentures	1,894	1,833
Interest expense at corporate level	2,314	742
Amortization of available credit facility stand-by fees	126	231
Interest income at Facilities' and IMD's level	(28)	(25)
Interest income at corporate level	(220)	(219)
Interest expense, net of interest income, from continuing operations	**5,892**	**4,258**

17. RELATED PARTY TRANSACTIONS AND BALANCES

17.1 Equity accounted investments

The Corporation owns a 54.22% equity interest in Mountain Plains Real Estate Holdings, LLC ("MPREH"), an entity over which it has significant influence. The Corporation uses the equity method to account for this investment which is valued at $698 as of December 31, 2017 (December 31, 2016: $678).

17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

The Corporation owns a 32.0% equity interest in South Dakota Interventional Pain Institute, LLC ("SDIPI"). The Corporation has significant influence over the associate because of its equity position and its representation on the board of the associate. The investment in and loan receivable from the associate as at December 31, 2017 were $534 and $55, respectively (December 31, 2016: $455 and $81).

The Corporation has a 0.35% ownership interest in an entity that holds an indirect interest in BHSH for a total investment of $341 (December 31, 2016: $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.

17.2 Related party transactions

A member of the Corporation's Board of Directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the year ended December 31, 2017 of $4,501 (2016: $4,501). As well, the director is a minority member of another ownership group that owns and leases imaging equipment to the same Facility, for which the Facility paid equipment rental expense for the year ended December 31, 2017 of $593 (2016: $593).

Certain Facilities 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 facilities 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. For the year ended December 31, 2017, SFSH paid SDIPI $659 for the use of a facility and related equipment (2016: $659). As of December 31, 2017, SFSH had a balance payable to SDIPI of $59 (2016: $39). For the year ended December 31, 2017, BHSH paid MPREH $180 for the use of a facility (2016: $nil).

17.3 Key management and governance compensation

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 for the year ended December 31, 2016, with no commensurate expense for the year ended December 31, 2017.

17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Key management and governance compensation for the years 2017 and 2016 was as follows:

	2017 $	2016 $
Salaries and other employee benefits for executive officers	3,909	1,648
Director compensation	776	948
Total key management and governance compensation	**4,685**	**2,596**

Salaries and other employee benefits for executive officers include payments to executive officers for their base salaries, social security payments, medical insurance payments, separation payments, payments under the Corporation's short-term incentive plans, and share based compensation relating to stock options and restricted share units which have vested. Director compensation consists of retainers, meeting fees, and fees for special projects where a director is asked to undertake such special projects.

18. INVESTMENT

On October 6, 2017, the Corporation and ASH, entered into an agreement with a third party to establish an urgent care center in Sherwood, Arkansas. The ASH Urgent Care Center ("ASH UCC") offers one-stop care for non-life-threatening illnesses or injuries. The total cash investment by the Corporation and ASH was $272, with $68 from the non-controlling interest. Operations for ASH UCC began January 5, 2018. Based on a combined 60.4% ownership by the Corporation, the assets and liabilities of ASH UCC are consolidated in the Corporation's financial statements, with the 39.6% non-controlled portion of the investment presented under non-controlling interest.

19. COMMITMENTS AND CONTINGENCIES

19.1 Commitments

In the normal course of operations, the Facilities lease certain equipment under non-cancellable long-term leases and enter into various commitments with third parties (Note 13.5.5). In addition, certain of the Facilities lease their facility space from related and non-related parties.

19.2 Contingencies

In the normal course of business, the Facilities are, from time to time, subject to allegations that may result in litigation. Certain allegations may not be covered by the Facilities' commercial and liability insurance. The Facilities 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.

20. CEO TRANSITION

The Corporation obtained a full release and settled all amounts owing to the former CEO, who resigned from the Corporation in June 2017. A charge of $2,000 is included for this in general and administrative expenses in the consolidated statements of income and comprehensive income for the year ended December 31, 2017.

21. 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 former CEO. The grant was effective May 1, 2016, and the stock options are exercisable at C$17.24 per share. At the time of the CEO transition, 223,562 of the options had vested, and 776,438 were forfeited. On September 19, 2016, stock options to acquire 350,000 common shares of the Corporation were granted to its Chief Development Officer, exercisable at C$21.15 per share. On November 21, 2016, stock options to acquire 425,000 common shares of the Corporation were granted to its Executive Vice-President, Finance, who was appointed Chief Financial Officer on January 1, 2017, exercisable at C$17.98 per share, subject to shareholder approval which was obtained at the Corporation's annual and special meeting of shareholders held on May 11, 2017. On May 18, 2017, stock options to acquire 350,000 common shares of the Corporation were granted to its Chief Operating Officer, now CEO, exercisable at C$16.47 per share. Outstanding 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. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to a blackout extension term.

During the year ended December 31, 2017, the Corporation recognized $341 (2016: $181) relating to the Options in salaries and benefits expense in the statement of income and comprehensive income. The grant date fair values 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:

	Q2 2017 Grants Issued	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$ 1.27	C$ 1.41	C$ 2.00	C$ 1.33
Share price at grant date	C$16.68	C$18.19	C$21.57	C$17.01
Exercise price	C$16.47	C$17.98	C$21.15	C$17.24
Expected volatility (weighted average volatility)	22.77%	21.77%	21.95%	23.60%
Option life (expected weighted average life)	5 years	5 years	5 years	5 years
Expected dividends	6.74%	6.18%	5.22%	6.61%
Risk-free rate	0.99%	0.99%	0.73%	1.03%

21. SHARE-BASED COMPENSATION (Continued)

Compensation for directors includes a deferred share unit ("DSU") component, for which grants based on the value of the Corporation's common shares are made quarterly. For the year ended December 31, 2017, director compensation included DSU grants of $389 (2016: $339), while the change in market value of outstanding DSUs for the same period was a recovery of $104 (2016: $490 expense).

The following table summarizes changes in the DSUs for the years 2017 and 2016:

	2017	2016
Opening balance of DSUs	75,424	144,066
Grants	33,138	24,200
DSUs granted on dividend reinvestment	5,507	6,767
DSUs redeemed on director retirement or departure	(18,126)	(99,609)
Total number of DSUs	**95,943**	**75,424**

Compensation for executive officers of the Corporation include a restricted share unit ("RSU") component, for which grants based on the value of the Corporation's common shares are made annually and from time to time. The RSU grants vest over three years, participate in the Corporation's monthly dividends and settle in cash. To date, grants were made on November 21, 2016 for 14,920 RSUs, and on July 1, 2017 for 21,804 RSUs. The value of the expense and liability associated with the RSUs is determined based on the Corporation's stock price at the end of each reporting period. For the year ended December 31, 2017, salaries and benefits included RSU expense of $186. As at December 31, 2017, the liability for RSUs was $132.

The following table summarizes changes in the RSUs for the years 2017 and 2016:

	2017	2016
Opening balance of RSUs	15,002	-
Grants	21,804	14,920
RSUs granted on dividend reinvestment	1,983	82
Payment on vesting	(5,338)	-
Total number of RSUs	**33,451**	**15,002**

22. 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 Facilities and IMD.

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22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.1 Functional and presentation currency

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.

22.2 Basis of consolidation

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

The non-controlling interest in the equity of the Corporation's subsidiaries is included as a separate component of equity.

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

22.3 Business combinations

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

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

22. 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.

22.4 Segment information

The operations and productive capacity of the Facilities revolve around the provision of surgical procedures. Each Facility 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 Facility to make decisions about resources to be allocated to each Facility and assess their performance. Therefore, each Facility represents a separate operating segment.

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 Facilities, management of the Corporation evaluated the long-term economic characteristics of each Facility, the comparative nature of the Facilities' operations, and the level of regulation of each Facility.

The services delivered by each Facility 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 Facilities. The Facilities principally provide surgical facilities, support staff and pre- and post-surgical care related to surgeries. Finally, the Facilities have similar economic characteristics, which management defines as comparable long-term operating margins, recognizing differences between the Facilities in payor mix, surgical specialties and local healthcare markets.

22.5 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.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.6 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.

22.7 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 Facility. 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.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.8 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.

22.9 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 Facilities 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.

22.10 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.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.11 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.

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.

22.12 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 Facility as a CGU.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to dispose and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

22.13 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.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

22.14 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.

22.14.1 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.

22.14.2 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.

22.15 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.

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.

22. 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.

22.16 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.

22.17 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.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.18 Exchangeable interest liability

Exchangeable interest liability represents an estimated liability for the remaining portion of the interest in the Facilities 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 Facilities 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.

22.19 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 Facilities 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. Where collection is not probable for self paying patients, a bad debt expense is recorded against revenues. Each Facility has agreements with third-party payors that provide for payments at amounts different from the Facility'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.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.20 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.

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, except 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.

22.21 Share-based payments

The Corporation has an equity settled, share-based compensation plan, under which the entity receives services from key executives 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.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

22.22 New and revised IFRS adopted

The Corporation has applied the following new and revised IFRS which are effective for periods beginning January 1, 2017, without any significant impact:

22.22.1 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.

22.22.2 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.

22.23 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.

22.22.3 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.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.22.4 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. The Corporation is currently reviewing the impact of this standard and continues to evaluate the key differences if any. The extent of the impact of the adoption has not yet been determined.

22.22.5 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 Corporation is in the process of completing its analysis of the terms of key contracts, and based on its evaluation of the new standard expects its impact to be minimal.

22.22.6 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. The extent of the impact of the adoption has not yet been determined.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.22.7 IFRIC 23 *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* in response to diversity in practice for various issues in circumstances in which there is uncertainty in the application of the tax law. While IAS 12 *Income Taxes* provides requirements on the recognition and measurement of current and deferred tax liabilities and assets, there is diversity in the accounting for income tax treatments that have yet to be accepted by tax authorities. The Interpretation is applicable for annual periods beginning on or after January 1, 2019 and may be applied on a fully retrospective basis, if this is possible without the use of hindsight, or on a modified retrospective basis, with an adjustment to equity on initial application. Earlier application is permitted. The Corporation intends to adopt IFRIC 23 in its financial statements for the annual period beginning on January 1, 2019.

23. 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.

23.1 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 22.2), (ii) segment information (discussed in note 22.5), (iii) recognition of deferred tax assets and liabilities (discussed in notes 15 and 22.20).

23. USE OF JUDGEMENTS AND ESTIMATES (Continued)

23.2 Estimates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2017 is included in the following notes: (i) timing of recognition of facility service revenue (discussed in note 22.19) and recovery of accounts receivable (discussed in notes 12.5.2 and 22.7), (ii) valuation of supply inventory (discussed in note 22.8), (iii) useful lives of property and equipment (discussed in note 22.9) and other intangibles (discussed in notes 6.2 and 21.13), (iv) fair value measurements and valuation of financial instruments (discussed in notes 12 and 22.15), (v) key assumptions regarding the valuation of acquired and disposed assets and liabilities, primarily goodwill and other intangibles (discussed in notes 5.1, 22.12 and 22.11), (vi) impairment test, including key assumptions underlying the recoverable amounts of goodwill and other intangibles (discussed in notes 7.3 and 22.12), (vii) provision for potential liabilities and contingencies and the assessment of the likelihood and magnitude of outflow of resources (discussed in note 22.16), and (viii) recognition of deferred tax assets and the availability of future income against which carry forward tax losses can be used (discussed in notes 15 and 22.20).

24. SUBSEQUENT EVENT

On February 1, 2018, subsequent to the year-end, the Corporation completed an acquisition of seven ambulatory surgery centers (“ASCs”) situated in Arkansas, Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania. The physicians at these ASCs specialize in orthopedics, neurosurgery, ophthalmology, and pain management, along with sub-specialties in otolaryngology, gastroenterology, plastic surgery, general surgery and podiatry. Combined, the ASCs have 18 operating rooms and 8 procedure rooms. The Corporation holds an indirect interest of between approximately 40% to 56% in respect of each ASC through a partnership formed with NueHealth, LLC, in which the Corporation holds a 94.25% indirect interest. The total purchase price paid by the partnership was $46,500 and the Corporation’s portion of the purchase price was funded by cash on hand and a draw on its credit facility. The transaction will be accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date, and including the assets and liabilities of these ASCs in its consolidated financial statements.