Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

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

TABLE OF CONTENTS

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Management's Responsibility for Financial Reporting

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

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

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

"Seymour Temkin"

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

"Michael Salter"

Michael Salter, CPA, CA
Chief Financial Officer

Toronto, Canada
March 16, 2016

KPMG LLP
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

Independent Auditors' Report

To the Shareholders of Medical Facilities Corporation:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

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

MEDICAL FACILITIES CORPORATION

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

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

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

On behalf of the Board:

Marilynne Day-Linton

Dale Lawr

MEDICAL FACILITIES CORPORATION

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

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

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

MEDICAL FACILITIES CORPORATION

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

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

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

MEDICAL FACILITIES CORPORATION

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

1. REPORTING ENTITY

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

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

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

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

2. STATEMENT OF COMPLIANCE

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

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

3. BASIS OF PRESENTATION

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

These consolidated financial statements are presented in United States dollars.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

4. DISCONTINUED OPERATION

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

4.1 Consideration received

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

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

4.2 Analysis of DPSC assets disposed

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

4.3 Gain on sale of DPSC's assets

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

4. DISCONTINUED OPERATION (Continued)

4.4 Results of discontinued operation

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

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

4.5 Cash flows from discontinued operation

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

5. PROPERTY AND EQUIPMENT

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

6. GOODWILL AND OTHER INTANGIBLES

6.1 Goodwill

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

6.2 Other intangibles

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

6.3 Impairment

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

6. GOODWILL AND OTHER INTANGIBLES (Continued)

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

7. LONG-TERM DEBT

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

7. LONG-TERM DEBT (Continued)

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

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

8. CONVERTIBLE DEBENTURES

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

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

After December 31, 2015 and prior to December 31, 2017, the convertible debentures may be redeemed by the Corporation, in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest up to but excluding the redemption date, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is at least 125% of the Conversion Price. On or after December 31, 2017, but prior to the Maturity Date, the convertible debentures may be redeemed in whole or in part from time to time at the option of the Corporation, at a redemption price equal to the principal amount plus accrued and unpaid interest up to but excluding the redemption date.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

8. CONVERTIBLE DEBENTURES (Continued)

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

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

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

9. SHARE CAPITAL

9.1 Share capital

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

9. SHARE CAPITAL (Continued)

9.2 Earnings per share

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

9. SHARE CAPITAL (Continued)

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

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

9.3 Normal course issuer bids

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

10. NON-CONTROLLING INTEREST

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

10. NON-CONTROLLING INTEREST (Continued)

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

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

10.1 Significant restrictions

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

11. NET CHANGES IN NON-CASH WORKING CAPITAL

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 Foreign exchange forward contracts

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

12.2 Exchangeable interest liability

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

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

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

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

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.3 Fair values and classification of financial instruments

The Corporation obtained the fair value of foreign exchange forward contracts from the counterparties to such contracts. The fair values of the convertible debentures and exchangeable interest liability are determined based on the closing trading price of the securities at each reporting period. The fair values of notes payable and revolving credit facilities at the Centers' level approximate their book values as the interest rates are similar to prevailing market rates. The fair values of all other financial instruments of the Corporation, due to the short-term nature of these instruments, approximate their book values.

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

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

12.4 Measurement of fair values

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5 Financial risk management

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

12.5.1 Foreign Exchange Risk

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

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

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

12.5.2 Credit Risk

The Corporation faces the following credit risks.

Revenue and Accounts Receivable

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

(i) governmental payors,

(ii) health and workers' compensation insurance companies,

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

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

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

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

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

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Management reviews reimbursement rates and aging of the accounts receivable to monitor its credit risk exposure. On an ongoing basis, management assesses the circumstances affecting the recoverability of its accounts receivable and adjusts allowances based on changes in those factors. Monthly, actual bad debts for a trailing period are compared with the Corporation's allowance to support the accuracy of the estimate of recoverability. Considerations related to historical experience are also factored into the valuation of the current period accounts receivable.

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

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

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

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

Concentration of Financial Institutions

From time to time, the Corporation enters into foreign exchange forward contracts and places excess funds for investment with certain financial institutions. Historically, the counterparties to the foreign exchange forward contracts were banking institutions and the Corporation considered their risk of default on the contracts to be minimal. Investment of excess funds is guided by the investment policy of the Corporation that, among other things, (i) prescribes the eligible types of investments and (ii) establishes limits on the amounts that can be invested with any one financial institution.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5.3 Interest Rate Risk

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

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

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

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

12.5.4 Price Risk

The Corporation's convertible debentures and exchangeable interest liability are measured on quoted market prices in active markets and, therefore, the Corporation is exposed to variability in net income as prices change. Price risk includes the impact of foreign exchange because common shares are quoted in Canadian dollars.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5.5 Liquidity Risk

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

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

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

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

13. CAPITAL

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

13. CAPITAL (Continued)

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

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

14. EMPLOYEE FUTURE BENEFITS

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

15. INCOME TAXES

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

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

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

15. INCOME TAXES (Continued)

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

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

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

15. INCOME TAXES (Continued)

The components of deferred income tax balances are as follows:

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

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

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

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

17. LOSS ON FOREIGN CURRENCY

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

18. RELATED PARTY TRANSACTIONS AND BALANCES

18.1 Transactions in the normal course of operations

The Centers routinely enter into transactions with certain related parties. These parties are considered related through common ownership by the holders of non-controlling interest in the respective Centers. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

The expenses resulting from the Centers' transactions with related parties for the years 2015 and 2014 were as follows:

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

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

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

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

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

18. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

18.2 Other transactions

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

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

18.3 Key management and governance compensation

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

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

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

19. COMMITMENTS AND CONTINGENCIES

19.1 Commitments

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

19.2 Contingencies

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

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

20. SIGNIFICANT ACCOUNTING POLICIES

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

20.1 Functional and presentation currency

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.2 Basis of consolidation

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

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

20.3 Business combinations

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

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

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

20.4 Segment information

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

20.5 Discontinued operations

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

20.6 Cash and cash equivalents

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

20.7 Short-term and long-term investments

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.8 Accounts receivable

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

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

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

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

20.9 Supply inventory

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

20.10 Property and equipment

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

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

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

20.11 Goodwill

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

20.12 Other intangibles

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

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

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

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.13 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, such as goodwill and trade names, are tested at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets that have a definite useful life which are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

20.14 Financial assets and liabilities

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(ii) Held-to-maturity

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

(iii) Loans and receivables

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

(iv) Other liabilities

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

20.15 Impairment of non-derivative financial assets

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

20.15.1 Financial assets measured at amortized cost

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.15.2 Equity-accounted investee

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

20.16 Measurements of fair value

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

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

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

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

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

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.17 Provisions

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

20.18 Convertible debentures

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

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

20.19 Exchangeable interest liability

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.20 Facility service revenue

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

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

20.21 Income taxes

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

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

20.22 New and revised IFRS not yet adopted

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

20.22.1 IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the complete IFRS 9 *Financial Instruments* ("IFRS 9 (2014)"). The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The Corporation intends to adopt IFRS 9 (2014) in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

20.22.2 IFRS 15 *Revenue from Contracts with Customers*

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.22.3 IFRS 16 *Leases*

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

21. USE OF JUDGMENTS AND ESTIMATES

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

21.1 Judgments

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

21. USE OF JUDGMENTS AND ESTIMATES (Continued)

21.2 Estimates

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

22. SUBSEQUENT EVENT

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