Interim Condensed Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

For the three and six months ended June 30, 2019
(Unaudited)
(In U.S. dollars)

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(In thousands of U.S. dollars)
(Unaudited)

	Note	June 30, 2019 $	December 31, 2018 $
ASSETS			
Current assets			
Cash and cash equivalents		38,953	36,686
Short-term investments		10,849	10,284
Accounts receivable		57,705	67,312
Supply inventory		8,487	8,577
Prepaid expenses and other		7,655	8,533
Income tax receivable		-	1,517
Total current assets		**123,649**	**132,909**
Non-current assets			
Deferred income tax assets		4,553	1,541
Property and equipment		109,001	108,483
Right-of-use assets	14.24	58,053	-
Goodwill	4	157,983	159,859
Other intangibles	4	42,412	77,321
Other assets	11.1	1,608	1,674
Total non-current assets		**373,610**	**348,878**
TOTAL ASSETS		**497,259**	**481,787**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		2,227	2,134
Accounts payable		20,473	23,138
Accrued liabilities		20,952	22,721
Income tax payable		966	-
Convertible debentures		32,198	30,632
Current portion of long-term debt		19,036	21,086
Current portion of lease liability		13,089	-
Total current liabilities		**108,941**	**99,711**
Non-current liabilities			
Long-term debt		49,681	50,505
Lease liability	14.24	48,113	-
Deferred income tax liability		-	1,301
Corporate credit facility		68,800	68,800
Exchangeable interest liability	8	56,802	65,832
Total non-current liabilities		**223,396**	**186,438**
Total liabilities		**332,337**	**286,149**
Equity			
Share capital	6	398,114	397,639
Contributed surplus		1,124	934
Deficit		(287,448)	(261,189)
Equity attributable to owners of the Corporation		111,790	137,384
Non-controlling interest		53,132	58,254
Total equity		**164,922**	**195,638**
TOTAL LIABILITIES AND EQUITY		**497,259**	**481,787**

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

MEDICAL FACILITIES CORPORATION

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

		Attributable to Owners of the Corporation				Non-controlling Interest	Total Equity
		Share Capital $	**Contributed Surplus** $	**Retained Earnings/ (Deficit)** $	**Total** $	$	$
2019							
Balance at January 1, 2019		397,639	934	(261,189)	137,384	58,254	195,638
Net income (loss) and comprehensive income (loss) for the period		-	-	(13,094)	(13,094)	4,311	(8,783)
Share-based compensation	13	-	190	-	190	-	190
Dividends to owners of the Corporation		-	-	(13,165)	(13,165)	-	(13,165)
Distributions to non-controlling interest		-	-	-	-	(14,127)	(14,127)
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		475	-	-	475	-	475
Acquisition of additional interest in Unity Medical and Surgical Hospital		-	-	-	-	(154)	(154)
Contributions by Black Hills Surgical Hospital, LLP non-controlling interest		-	-	-	-	305	305
Sale of interest in City Place Surgery Center to non-controlling interest	1	-	-	-	-	4,543	4,543
Balance at June 30, 2019		**398,114**	**1,124**	**(287,448)**	**111,790**	**53,132**	**164,922**
2018							
Balance at January 1, 2018		396,428	522	(255,284)	141,666	58,862	200,528
Net income and comprehensive income for the period		-	-	10,528	10,528	13,051	23,579
Share-based compensation	13	-	223	-	223	-	223
Dividends to owners of the Corporation		-	-	(13,584)	(13,584)	-	(13,584)
Distributions to non-controlling interest		-	-	-	-	(18,456)	(18,456)
Acquisition of MFC Nueterra ASCs		-	-	-	-	2,888	2,888
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		356	-	-	356	-	356
Balance at June 30, 2018		**396,784**	**745**	**(258,340)**	**139,189**	**56,345**	**195,534**

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

MEDICAL FACILITIES CORPORATION

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

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	2019 $	2018 $	2019 $	2018 $
Facility service revenue		**100,988**	**106,494**	**200,083**	**204,112**
Operating expenses					
Salaries and benefits		31,563	29,615	62,880	58,517
Drugs and supplies		32,761	31,712	64,728	61,699
General and administrative expenses		17,585	21,257	34,048	39,918
Impairment of goodwill and other intangibles	4	29,500	-	29,500	-
Depreciation of property and equipment		2,586	2,737	6,058	5,441
Depreciation of right-of-use assets		2,842	-	4,818	-
Amortization of other intangibles		3,584	3,312	7,285	6,553
		120,421	**88,633**	**209,317**	**172,128**
Income (loss) from operations		**(19,433)**	**17,861**	**(9,234)**	**31,984**
Finance costs					
Change in value of convertible debentures		554	(671)	1,566	(1,354)
Change in value of exchangeable interest liability		(21,349)	(840)	(8,555)	(2,660)
Interest expense on exchangeable interest liability		1,796	2,143	3,736	4,658
Interest expense, net of interest income	10	2,950	1,465	5,675	2,839
Loss (gain) on foreign currency		(154)	223	(388)	422
		(16,203)	**2,320**	**2,034**	**3,905**
Income (loss) before income taxes		**(3,230)**	**15,541**	**(11,268)**	**28,079**
Income tax expense (recovery)	9	269	2,491	(2,485)	4,500
Net income (loss) and comprehensive income (loss) for the period		**(3,499)**	**13,050**	**(8,783)**	**23,579**
Attributable to:					
Owners of the Corporation		(2,808)	6,300	(13,094)	10,528
Non-controlling interest		(691)	6,750	4,311	13,051
		(3,499)	**13,050**	**(8,783)**	**23,579**
Earnings (loss) per share					
Basic	5	$ (0.09)	$ 0.20	$ (0.42)	$ 0.34
Fully diluted	5	$ (0.46)	$ 0.18	$ (0.45)	$ 0.30

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

MEDICAL FACILITIES CORPORATION

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

	Note	Six Months Ended June 30, 2019 $	2018 $
Cash flows from operating activities			
Net income (loss) for the period		(8,783)	23,579
Adjustments for:			
Depreciation of property and equipment		6,058	5,441
Depreciation of right-of-use assets		4,818	-
Amortization of other intangibles		7,285	6,553
Impairment of goodwill and other intangibles	4	29,500	-
Share of equity income (loss) in associates	11.1	101	(65)
Change in value of convertible debentures		1,566	(1,354)
Change in value of exchangeable interest liability		(8,555)	(2,660)
Loss (gain) on foreign currency		(388)	422
Income tax expense (recovery)	9	(2,485)	4,500
Share-based compensation	13	190	223
Other non-cash gain		(834)	-
Loss on disposal of assets of Integrated Medical Delivery, LLC		-	530
Interest expense, net of interest income		9,411	7,497
		37,884	44,666
Changes in non-cash operating working capital	7	9,577	4,506
		47,461	49,172
Interest paid, net of received		(9,933)	(7,497)
Income and withholding taxes received		2,183	394
Net cash provided by operating activities		**39,711**	**42,069**
Cash flows from investing activities			
Purchase of property and equipment		(5,216)	(10,306)
Business combinations (net of cash assumed)		-	(42,760)
Sale of interest in City Place Surgery Center to non-controlling interest	1	4,543	-
Investment in St. Luke's Surgery Center of Chesterfield, LLC	1	(500)	-
Investment in Unity Medical and Surgical Hospital		(154)	-
Investment in Black Hills Surgical Hospital, LLP by non-controlling interest		305	-
Proceeds from disposal of assets		(55)	3,100
Investment in short-term bank investments		(565)	(603)
Net cash used in investing activities		**(1,642)**	**(50,569)**
Cash flows from financing activities			
Net proceeds from (repayments of) revolving credit facilities and issuance of notes payable		(119)	25,197
Repayments of notes payable at the Facilities		(3,155)	(2,962)
Payments of lease liabilities		(5,778)	-
Distributions, return of capital and loan receivable from an associate		61	33
Distributions to non-controlling interest		(14,127)	(18,456)
Dividends paid		(13,072)	(13,700)
Net cash used in financing activities		**(36,190)**	**(9,888)**
Increase (decrease) in cash and cash equivalents		**1,879**	**(18,388)**
Effect of exchange rate fluctuations on cash balances held		388	(422)
Cash and cash equivalents, beginning of the period		36,686	56,029
Cash and cash equivalents, end of the period		**38,953**	**37,219**
Non-cash transactions:			
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		475	356

The accompanying notes are an integral part of these unaudited interim condensed 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 and non-controlling interests in five specialty hospitals and eight ambulatory surgery centers (the "Facilities"). The Corporation also owns a 92% controlling interest in RRI Mishawaka Hospital, LP, an entity which owns the land and building for one of its facilities.

On May 28, 2019, St. Luke's Episcopal-Presbyterian Hospitals ("St. Luke's Hospital") and MFC Nueterra Holding Company, LLC, the holding company of MFC Nueterra ASCs, announced plans to develop a new ambulatory surgery center on the west campus of St. Luke's Hospital in Chesterfield, MO ("St. Luke's ASC"), for which MFC Nueterra ASCs invested $500 for a 30.0% non-controlling ownership interest. As part of this transaction, partial ownership in City Place Surgery Center was sold to St. Luke's Hospital for total proceeds of $5,048, of which $505 was paid to non-controlling interest for net proceeds of $4,543 to the Corporation, reducing the Corporation's indirect ownership interest in City Place Surgery Center from 51.3% to 26.1%. The Corporation retains the control over this facility through its operating agreement by having continued representation on the governing board and majority voting rights, and consolidates its results in consolidated financial statements.

The Corporation's ownership interest in, and the location of, its operating subsidiaries are as follows:

		Ownership Interest June 30,	
Subsidiary	**Location**	**2019**	**2018**
Arkansas Surgical Hospital, LLC ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
Unity Medical and Surgical Hospital ("UMASH")	Mishawaka, Indiana	80.8%	62.0%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	64.0%	61.0%
Black Hills Surgical Hospital, LLP ("BHSH")	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP ("SFSH")	Sioux Falls, South Dakota	51.0%	51.0%
The Surgery Center of Newport Coast ("SCNC")	Newport Beach, California	51.0%	51.0%
MFC Nueterra ASCs(1)	Various	47.7%	52.6%

(1) The Corporation has an average ownership interest of 47.7% based on values as at the reporting date. The seven ambulatory surgery centers are situated in Arkansas, Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania.

2. STATEMENT OF COMPLIANCE

These unaudited interim condensed consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") using the accounting policies as described in the audited consolidated financial statements for the year ended December 31, 2018 and presented in note 14 to these consolidated financial statements.

These consolidated financial statements were approved for issue by the Corporation's Board of Directors on August 7, 2019.

3. BASIS OF PREPARATION

These consolidated financial statements do not contain all of the disclosures that are required in annual financial statements prepared under International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2018, which include information necessary or useful to understand the Corporation's business and financial statement presentation.

Income from operations for the interim period is not necessarily indicative of the results for the full year. Facility service revenue and certain directly related expenses are subject to seasonal fluctuations due to the timing of case scheduling, which can be impacted by the vacation schedules of surgeons, as well as the extent to which patients have remaining deductibles on their insurance coverage, based on the time of year. Occupancy related expenses, certain operating expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

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

4. IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLES

Following a review of the operating results of the UMASH/RRIMH cash-generating unit ("CGU"), the Corporation's impairment testing concluded that the carrying value of goodwill and other intangibles exceeded the recoverable amount. As a result, the Corporation recorded an impairment loss of $29,500 in the three months ended June 30, 2019, of which $1,876 is related to goodwill and $27,624 to other intangibles. Of the total charge, $23,840 pertained to the Corporation's controlling interest, while $5,660 related to the 19% non-controlling interest owners.

Management calculated the recoverable amount of the UMASH/RRIMH CGU by determining the fair value less costs of disposal ("FVLCD"). Management has estimated cost to dispose to be 1% of the fair value of the CGU, based on recent market data.

The FVLCD of the UMASH/RRIMH CGU was determined by discounting the future cash flows generated from continuing use. The inputs used in the calculation are level 3 inputs under IFRS 13, *Fair Value Measurement*. Cash flows for fiscal 2019 to fiscal 2023 were projected based on past experience, actual operating results normalized for non-routine items, and budgeted projections. Projected cash flows were discounted using a post-tax rate of 15.0%. The discount rate was estimated based on a weighted average cost of capital which is based on a risk-free rate, plus various risk premiums including a size premium and a specific Corporation risk premium.

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

5. EARNINGS (LOSS) PER SHARE

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

		Three Months Ended June 30,	
		2019	2018
Net income (loss) for the period attributable to owners of the Corporation	$	(2,808)	6,300
Divided by weighted average number of common shares outstanding for the period		31,071,779	30,981,810
Basic earnings (loss) per share attributable to owners of the Corporation	**$**	**(0.09)**	**0.20**

		Six Months Ended June 30,	
		2019	2018
Net income (loss) for the period attributable to owners of the Corporation	$	(13,094)	10,528
Divided by weighted average number of common shares outstanding for the period		31,063,187	30,966,165
Basic earnings (loss) per share attributable to owners of the Corporation	**$**	**(0.42)**	**0.34**

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

		Three Months Ended June 30,	
		2019	2018
Net income (loss) for the period attributable to owners of the Corporation	$	(2,808)	6,300
Change in value of exchangeable interest liability (tax effected)		(15,691)	(617)
Interest expense on exchangeable interest liability (tax effected)		1,365	1,629
Change in value of convertible debentures (tax effected)		-	(493)
Interest expense on convertible debentures (tax effected)		-	349
Modified net income (loss) for the period attributable to owners of the Corporation		(17,134)	7,168
Weighted average number of common shares:			
Outstanding for the period		31,071,779	30,981,810
Deemed to be issued on the conversion of the outstanding exchangeable interest liability		5,978,141	6,014,454
Deemed to be issued on the conversion of the outstanding convertible debentures		-	2,184,353
Weighted average number of common shares[(1)]		37,049,920	39,180,617
Fully diluted earnings (loss) per share	**$**	**(0.46)**	**0.18**

[(1)] For the periods ended June 30, 2019 and June 30, 2018, the impact of share-based compensation was excluded from the dilutive weighted average number of common shares calculation because they are not applicable based on the share price prevailing at June 30, 2019 and June 30, 2018.

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

5. EARNINGS (LOSS) PER SHARE (Continued)

		Six Months Ended June 30,	
		2019	2018
Net income (loss) for the period attributable to owners of the Corporation	$	(13,094)	10,528
Change in value of exchangeable interest liability (tax effected)		(6,288)	(1,955)
Interest expense on exchangeable interest liability (tax effected)		2,839	3,540
Change in value of convertible debentures (tax effected)		-	(995)
Interest expense on convertible debentures (tax effected)		-	701
Modified net income (loss) for the period attributable to owners of the Corporation	$	(16,543)	11,819
Weighted average number of common shares:			
Outstanding for the period		31,063,187	30,966,165
Deemed to be issued on the conversion of the outstanding exchangeable interest liability		5,986,689	5,978,138
Deemed to be issued on the conversion of the outstanding convertible debentures		-	2,184,353
Weighted average number of common shares[(1)(2)]		37,049,876	39,128,656
Fully diluted earnings (loss) per share	**$**	**(0.45)**	**0.30**

[(1)] For the period ended June 30, 2019, the impacts of convertible debentures and share-based compensation were excluded from the dilutive weighted average number of common shares calculation because they are not applicable based on the share price prevailing at June 30, 2019.

[(2)] For the period ended June 30, 2018, the impact of share-based compensation was excluded from the dilutive weighted average number of common shares calculation because they are not applicable based on the share price prevailing at June 30, 2018.

6. NORMAL COURSE ISSUER BIDS

The Corporation’s current normal course issuer bid for up to 621,144 of its common shares, is in effect from May 16, 2019 to May 15, 2020. Previously, the Corporation’s normal course issuer bid for up to 619,665 of its common shares, was in effect from May 16, 2018 to May 15, 2019. During the six months ended June 30, 2019 and the six months ended June 30, 2018, the Corporation did not purchase any of its common shares.

7. NET CHANGES IN NON-CASH WORKING CAPITAL

The net changes in non-cash working capital included in the statement of cash flows, exclusive of the IFRS 16, *Leases* impact, consist of the following:

	Six Months Ended June 30,	
	2019 $	2018 $
Accounts receivable	9,607	8,218
Supply inventory	90	(343)
Prepaid expenses and other	1,235	(1,094)
Accounts payable	(2,665)	(1,928)
Accrued liabilities	1,310	(347)
Net changes in non-cash working capital	**9,577**	**4,506**

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

8. FINANCIAL INSTRUMENTS

8.1 Fair values and classification of financial instruments

The fair values of the convertible debentures and exchangeable interest liability are determined based on the closing trading price of the debentures and the common shares at each reporting period. The fair values of notes payable and revolving credit facilities at the Facilities' level approximate their book values as the interest rates are similar to prevailing market rates. The fair values of all other financial instruments of the Corporation, due to the short-term nature of these instruments, approximate their book values.

The following table presents the carrying values and classification of the Corporation's financial instruments as at June 30, 2019 and December 31, 2018:

	June 30, 2019 $	December 31, 2018 $
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	38,953	36,686
Short-term investments	10,849	10,284
Amortized cost		
Accounts receivable	57,705	67,312
Financial liabilities		
Fair value through profit or loss		
Convertible debentures	32,198	30,632
Exchangeable interest liability	56,802	65,832
Amortized cost		
Dividends payable	2,227	2,134
Accounts payable	20,473	23,138
Accrued liabilities	20,952	22,721
Corporate credit facility	68,800	68,800
Long-term debt	68,717	71,591

The financial instruments of the Corporation that are recorded at fair value have been classified into levels using a fair value hierarchy. The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at fair value as of June 30, 2019 and December 31, 2018. It does not include fair value information for financial instruments not measured at fair value and which are short-term in nature.

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

8. FINANCIAL INSTRUMENTS (Continued)

	June 30, 2019			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	38,953	-	-	38,953
Short-term investments	10,849	-	-	10,849
Financial liabilities				
Convertible debentures	32,198	-	-	32,198
Exchangeable interest liability	-	56,802	-	56,802
Corporate credit facility	-	68,800	-	68,800
Long-term debt	-	68,717	-	68,717
Total	**82,000**	**194,319**	**-**	**276,319**

	December 31, 2018			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	36,686	-	-	36,686
Short-term investments	10,284	-	-	10,284
Financial liabilities				
Convertible debentures	30,632	-	-	30,632
Exchangeable interest liability	-	65,832	-	65,832
Corporate credit facility	-	68,800	-	68,800
Long-term debt	-	71,591	-	71,591
Total	**77,602**	**206,223**	**-**	**283,825**

8.2 Measurement of fair values

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

Financial Instrument	Valuation Technique
Exchangeable interest liability	*Market comparison technique:* The number of the Corporation’s common shares to issue is based on the contractual agreements with the holders of non-controlling interest that have exchange agreements with the Corporation and take into account the distributions to the non-controlling interest over the prior twelve months. The liability is valued based on the market price of the Corporation’s common shares converted to the reporting currency as of the reporting date.
Corporate credit facility	*Market comparison technique:* Interest rates are based on the lending agreements with various banks of corporate credit facility, and they are prime rates adjusted for the Corporation’s risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals.
Long-term debt	*Market comparison technique:* Interest rates are based on the lending agreements with various banks and creditors of long-term debt, and they are prime or LIBOR rates adjusted for the Corporation’s risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals and interest payments discounted to present value.

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

9. INCOME TAXES

The U.S. tax return for the Corporation is prepared on a consolidated basis for U.S. entities and includes balances and amounts attributable to these entities. The *Tax Cuts and Jobs Act*, which took effect January 1, 2018 for the Corporation, reduced the United States federal corporate income tax rate to 21%. This rate has been used to prepare the Corporation's current and deferred U.S. tax balances.

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 reported in these consolidated financial statements are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Provision for Income Taxes	**2019 $**	**2018 $**	**2019 $**	**2018 $**
Current	1,614	1,005	1,828	1,085
Deferred	(1,345)	1,486	(4,313)	3,415
Total income tax expense (recovery)	**269**	**2,491**	**(2,485)**	**4,500**

10. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income, included in the Interim Condensed Consolidated Statements of Income and Comprehensive Income consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Interest expense at Facilities' level	923	498	1,438	972
Interest expense on convertible debentures	457	474	913	953
Interest expense at corporate level	776	583	1,580	1,061
Interest expense on lease liability	802	-	1,765	-
Amortization of available credit facility stand-by fees	124	24	247	58
Interest income at Facilities' level	(10)	(34)	(24)	(42)
Interest income at corporate level	(122)	(80)	(244)	(163)
Interest expense, net of interest income	**2,950**	**1,465**	**5,675**	**2,839**

11. RELATED PARTY TRANSACTIONS AND BALANCES

11.1 Equity accounted investments

The Corporation owns a 54.22% equity interest in Mountain Plains Real Estate Holdings, LLC (“MPREH”), an entity over which it has significant influence. The Corporation uses the equity method to account for this investment, which was valued at $715 as of June 30, 2019 (December 31, 2018: $715).

The Corporation owns a 32.0% equity interest in South Dakota Interventional Pain Institute, LLC (“SDIPI”). The Corporation has significant influence over the associate because of its equity position and its representation on the board of the associate. The Corporation uses the equity method to account for this investment. The investment in and loan receivable from the associate as at June 30, 2019 were $56 and $(4), respectively (December 31, 2018: $590 and $28, respectively). During the quarter ended June 30, 2019, SFSH purchased substantially all of the net assets of SDIPI, including real estate and loans. The Corporation’s ownership interest in SDIPI did not change.

The Corporation has a 0.35% ownership interest in an entity that holds an indirect interest in BHSH for a total investment of $341 (December 31, 2018: $341), for which the investment is accounted for at cost in the consolidated financial statements.

Together, the three investments comprise the ‘Other assets’ on the Interim Condensed Consolidated Balance Sheets.

11.2 Related party transactions

A member of the Corporation’s Board of Directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the six months ended June 30, 2019 of $2,250 (June 30, 2018: $2,250). As well, the director is a minority member of another ownership group that owns and leases imaging equipment to the same Facility, for which the Facility paid equipment rent for the six months ended June 30, 2019 of $296 (June 30, 2018: $296).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facilities and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. For the six months ended June 30, 2019, SFSH paid SDIPI $220 for the use of a facility and related equipment (June 30, 2018: $330). As of June 30, 2019, SFSH had a balance payable to SDIPI of $1,016, representing the cost of acquiring substantially all of SDIPI’s assets (December 31, 2018: $39). For the six months ended June 30, 2019, BHSH paid MPREH $90 for the use of a facility (June 30, 2018: $90).

11. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

11.3 Other transactions

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

12. COMMITMENTS AND CONTINGENCIES

12.1 Commitments

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

12.2 Contingencies

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

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

13. SHARE-BASED COMPENSATION

13.1 Stock Options

The following table summarizes the outstanding number of stock options as of June 30, 2019:

Optionee	Number of Options Held	Exercise Price	Grant Date
Chief Executive Officer	450,000	C$14.03	March 29, 2018
	350,000	C$16.47	May 18, 2017
Chief Financial Officer	300,000	C$12.79	June 24, 2019
Chief Development Officer	350,000	C$21.15	September 19, 2016
Vice-President, Operations	120,000	C$14.03	March 29, 2018
Former Chief Executive Officer	223,562	C$17.24	May 1, 2016
Former Chief Financial Officer	221,344	C$17.98	November 21, 2016
Total number of outstanding options	**2,014,906**		

Outstanding options (the "Options") will vest after five years of employment and, for certain executive officers, subject to the Corporation maintaining a dividend rate not less than the rate in effect at the time of the grant date. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of June 30, 2019, 444,906 of the Options relating to Former Chief Executive Officer and Former Chief Financial Officer are vested.

During the six months ended June 30, 2019, the Corporation recognized $190 (June 30, 2018: $223) relating to the Options in salaries and benefits expense. On June 24, 2019, stock options to acquire 300,000 common shares of the Corporation were granted to its Chief Financial Officer. On June 30, 2019, stock options to acquire 203,656 common shares that were previously granted in 2016 to Former Chief Financial Officer were forfeited.

The grant date fair values of the Options were measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at the grant date of the share-based compensation plan are as follows:

	Q2 2019 Grants Issued	Q1 2018 Grants Issued	Q2 2017 Grants Issued	Q4 2016 Grants Issued	Q3 2016 Grants Issued	Q2 2016 Grants Issued
Fair value of Options, grants and assumptions						
Fair value at grant date	C$ 1.20	C$ 1.33	C$ 1.27	C$ 1.41	C$ 2.00	C$ 1.33
Share price at grant date	C$12.90	C$14.03	C$16.68	C$18.19	C$21.57	C$17.01
Exercise price	C$12.79	C$14.03	C$16.47	C$17.98	C$21.15	C$17.24
Expected volatility (weighted average volatility)	29.77%	27.76%	22.77%	21.77%	21.95%	23.60%
Option life (expected weighted average life)	5 years	5 years	5 years	5 years	5 years	5 years
Expected dividends	8.72%	8.02%	6.74%	6.18%	5.22%	6.61%
Risk-free rate	1.34%	1.96%	0.99%	0.99%	0.73%	1.03%

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

13. SHARE-BASED COMPENSATION (Continued)

13.2 Deferred Share Units

Compensation for directors includes a deferred share unit ("DSU") component, for which grants based on the value of the Corporation's common shares are made quarterly. The DSUs accrue dividends, vest immediately and can be redeemed only when a participant ceases to serve as a director of the Corporation. The participant's entitlement in respect of the DSUs then held will be settled in cash based on a formula tied to the value of the Corporation's common shares at the relevant time. For the six months ended June 30, 2019, director compensation included DSU grants of $274 (June 30, 2018: $224), while the change in market value of outstanding DSUs for the same period was a recovery of $142 (June 30, 2018: expense of $62).

The following table summarizes changes in the DSUs for six months ended June 30, 2019:

	2019
Opening balance of DSUs at January 1, 2019	151,211
DSUs granted on director fees	25,009
DSUs paid out	(18,335)
DSUs granted on dividend reinvestment	5,204
Total number of DSUs at June 30, 2019	**163,089**

13.3 Restricted Share Units

Compensation for executive officers of the Corporation includes a restricted share unit ("RSU") component, for which grants based on the value of the Corporation's common shares were made annually up to 2018 and from time to time. Effective 2018, annual RSU grants were replaced by annual performance share unit ("PSU") grants. The RSU grants vest over three years, participate in the Corporation's monthly dividends, and settle in cash. To date, grants were made on November 21, 2016 for 14,920 RSUs, July 1, 2017 for 21,804 RSUs, and on May 10, 2018 for 17,040 RSUs. The value of the expense and liability associated with the RSUs is determined based on the Corporation's stock price at the end of each reporting period. For the six months ended June 30, 2019, salaries and benefits included an RSU expense of $96 (June 30, 2018: expense of $119). As at June 30, 2019, the liability for RSUs was $198.

The following table summarizes changes in the RSUs for the six months ended June 30, 2019:

	2019
Opening balance of RSUs at January 1, 2019	40,070
RSUs vested and settled	(10,092)
RSUs forfeited	(3,239)
RSUs granted on dividend reinvestment	1,510
Total number of RSUs at June 30, 2019	**28,249**

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

13. SHARE-BASED COMPENSATION (Continued)

13.4 Performance Share Units

The PSU grants vest at the end of three years, participate in the Corporation's monthly dividends and settle in cash, subject to achievement of performance objectives set at the time of the grant. To date, a grant was made on March 29, 2018 for 59,003 PSUs, and on March 29, 2019 for 51,077 PSUs. The value of the expense and liability associated with the PSUs is determined based on the Corporation's stock price at the end of each reporting period. For the six months ended June 30, 2019, salaries and benefits included a PSU expense of $60. As at June 30, 2019, the liability for PSUs was $193.

The following table summarizes changes in the PSUs for the six months ended June 30, 2019:

	2019
Opening balance of PSUs at January 1, 2019	62,493
PSUs granted	51,077
PSUs vested and settled	(4,195)
PSUs forfeited	(26,933)
PSUs granted on dividend reinvestment	3,380
Total number of PSUs at June 30, 2019	**85,822**

14. SIGNIFICANT ACCOUNTING POLICIES

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

14.1 Basis of measurement

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

14.2 Functional and presentation currency

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

14.3 Basis of consolidation

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

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

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

14.4 Business combinations

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 certain acquisitions, accounted for as exchangeable interest liability, is recorded on the consolidated balance sheet with periodic changes in fair value of that liability reflected in net income and comprehensive income.

14.5 Segment information

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

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

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

14.6 Cash and cash equivalents

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.7 Short-term and long-term investments

Investments represent liquid investments purchased with a maturity of more than six months. Investments with maturities of more than six 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.

14.8 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 Facility. Patient receivables are written off as non-collectible when all reasonable collection efforts have been exhausted.

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

14.9 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.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.10 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. 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

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

14.11 Right-of-use assets

All leases are capitalized with the cost included in right-of-use assets, and the related liability recorded in current and non-current liabilities. Depreciation of right-of-use assets is computed using the straight-line method over the shorter of the lease term and their useful lives unless it is reasonably certain that the Facilities will obtain ownership by the end of the lease term.

14.12 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of cost over the fair value of identifiable net assets acquired. For business acquisitions occurring after the date of transition to IFRS (January 1, 2010), goodwill is also recognized on non-controlling interest based on elections made independently for each acquisition. 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.

14.13 Other intangibles

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

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Hospital operating licenses	5 years - indefinite life
Non-compete agreements	3-5 years
Medical charts and records	5-7 years
Care networks	8-18 years
Trade names	20 years - indefinite life

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.

14.14 Impairment of non-financial assets

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

For the purposes of assessing impairment, assets are grouped at the CGU level, which is the lowest level for which there are separately identifiable cash flows. Management considers each Facility as a CGU, with the exception of the seven MFC Nueterra ASCs which collectively constitute a single 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 and comprehensive income. It is allocated first to reduce the carrying amount of any goodwill allocated to the respective Facility and, then, to reduce the carrying amount of the other assets of the respective Facility on a pro rata basis.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.15 Financial assets and liabilities

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

14.16 Impairment of non-derivative financial assets

Financial assets not designated as fair value through profit or loss (“FVTPL”), including interests in equity accounted investees, are assessed at each reporting date to determine whether there is objective evidence of impairment.

14.16.1 Financial assets measured at amortized cost

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

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

14.16.2 Equity-accounted investee

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

14.17 Measurements of fair value

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

14.18 Provisions

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.19 Convertible debentures

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

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

14.20 Exchangeable interest liability

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

14.21 Facility service revenue

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.22 Income taxes

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

Current tax is the expected tax payable on the taxable income for reporting period, 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 and comprehensive income in the period that includes the date of enactment or substantive enactment.

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

14.23 Share-based payments

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

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In September 2016, the IASB issued amendments to IFRS 2, *Share-Based Payments*. The amendments provide clarification on how to account for certain types of share-based payment transactions.

14.24 New and revised IFRS adopted

The Corporation has applied the following new and revised IFRS which are effective for periods beginning January 1, 2019.

14.24.1 IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”), which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding right-of-use asset on the consolidated balance sheet. There are minimal changes to lessor accounting.

The Corporation has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. The Corporation did not record any adjustments to retained earnings at January 1, 2019, since the right-of-use assets were measured at amounts equal to lease liabilities, adjusted for deferred rent. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported, under IAS 17, *Leases* (“IAS 17”) and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a Lease

Previously, the Corporation determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (“IFRIC 4”). The Corporation now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for considerations.

On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered or changed on or after January 1, 2019.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lessee Accounting

The Facilities' lease assets including premises, medical equipment and office equipment. The Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases, except for those leases that are of low value (such as certain office equipment) and operating leases for which the lease term ends within 12 months of the date of initial application of IFRS 16. The Corporation recognizes the payments associated with these leases as an expense on a straight-line basis over the lease term.

Significant Accounting Policies

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Corporation has applied judgment to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Corporation is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Significant Accounting Policies – Transition

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any deferred rent payments.

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation used the following practical expedients when applying IFRS 16:

- exclude certain operating leases for which the lease term ends within 12 months of the date of initial application of IFRS 16;
- exclude certain low-value leases from IFRS 16;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- use hindsight in determining lease term at the date of initial application.

The carrying amounts of right-of-use assets are as follows.

	Premises $	Medical Equipment $	Office Equipment $	Total $
Balance at January 1, 2019	61,447	486	1,345	63,278
Balance at June 30, 2019	55,111	1,560	1,382	58,053

Summary of Impacts

	January 1, 2019 $
Right-of-use assets	63,278
Property and equipment	(881)
Deferred rent liabilities	(3,080)
Long-term debt	(905)
Lease liabilities	66,358

In relation to the leases under IFRS 16, the Corporation recognized depreciation and interest expenses, instead of operating lease expense. As a result, during the six months ended June 30, 2019, the Corporation recognized $3,840 of incremental depreciation expense and $1,620 of incremental interest expense, while general and administrative expenses were lower by $6,399 as the Corporation no longer records lease expenses in general and administrative expenses. The Corporation also recognized $20 and $10 in low-value leases and short-term leases, respectively.

The activities during the six months ended June 30, 2019 in the right-of-use assets and lease liabilities are summarized as follows.

Right-of-use assets	**$**
Balance at January 1, 2019	63,278
New lease agreements	1,929
Termination of lease agreements	(2,336)
Depreciation expense	(4,818)
Ending balance at June 30, 2019	**58,053**

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease liabilities	**$**
Balance at January 1, 2019	66,358
New lease agreements	1,410
Termination of lease agreements	(2,553)
Interest expense	1,765
Payment of lease liabilities	(5,778)
Ending balance at June 30, 2019	**61,202**

14.24.2 IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23") in response to diversity in practice for various issuers in circumstances in which there is uncertainty in the application of the tax law. While IAS 12, *Income Taxes* provides requirements on the recognition and measurement of current and deferred tax assets and liabilities, there is diversity in the accounting for income tax treatments that have yet to be accepted by tax authorities. The Corporation has adopted IFRIC 23, with no significant impacts on the consolidated financial statements.

14.25 New and revised IFRS not yet adopted

There are no relevant new and revised IFRS that have been issued but are not yet effective, and not yet adopted by the Corporation.