Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

December 31, 2019 and 2018
(In U.S. dollars)

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CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED 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 controls and financial reporting matters. On the recommendation of the Audit Committee, the consolidated financial statements are forwarded to the Board of Directors for its approval.

"Robert O. Horrar"	*"David N.T. Watson"*
Robert O. Horrar Chief Executive Officer	David N.T. Watson Chief Financial Officer

Toronto, Canada
March 11, 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Medical Facilities Corporation,

Opinion

We have audited the consolidated financial statements of Medical Facilities Corporation (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions; and
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2019 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document entitled "2019 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Tony Marino.

Toronto, Canada

March 11, 2020

MEDICAL FACILITIES CORPORATION

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

	Note	December 31, 2019 $	December 31, 2018 $
ASSETS			
Current assets			
Cash and cash equivalents		31,986	36,686
Short-term investments		-	10,284
Accounts receivable	12.4.2	66,454	67,312
Supply inventory		7,456	8,577
Prepaid expenses and other		7,060	8,533
Income tax receivable		450	1,517
Assets held for sale	4.2	43,420	-
Total current assets		**156,826**	**132,909**
Non-current assets			
Deferred income tax assets	15	143	1,541
Property and equipment	5	81,310	108,483
Right-of-use assets	18.1	64,373	-
Goodwill	6.1	135,983	159,859
Other intangibles	6.2	30,349	77,321
Other assets	17.1	1,563	1,674
Total non-current assets		**313,721**	**348,878**
TOTAL ASSETS		**470,547**	**481,787**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		1,118	2,134
Accounts payable		23,601	23,138
Accrued liabilities		17,768	22,721
Income tax payable		2,212	-
Convertible debentures	8	-	30,632
Current portion of long-term debt	7	18,062	21,086
Current portion of lease liabilities	7	15,400	-
Liabilities directly associated with assets held for sale	4.2	7,121	-
Total current liabilities		**85,282**	**99,711**
Non-current liabilities			
Long-term debt	7	48,523	50,505
Lease liabilities	7	51,981	-
Deferred income tax liability	15	4,611	1,301
Corporate credit facility	7	84,800	68,800
Exchangeable interest liability	12.1	22,006	65,832
Total non-current liabilities		**211,921**	**186,438**
Total liabilities		**297,203**	**286,149**
Equity			
Share capital	9.1	398,114	397,639
Contributed surplus	20.1	1,400	934
Deficit		(274,466)	(261,189)
Equity attributable to owners of the Corporation		125,048	137,384
Non-controlling interest	10	48,296	58,254
Total equity		**173,344**	**195,638**
TOTAL LIABILITIES AND EQUITY		**470,547**	**481,787**
Commitments and contingencies	19		

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

MEDICAL FACILITIES CORPORATION

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

		Attributable to Owners of the Corporation				Non-controlling Interest	Total Equity
	Note	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 and comprehensive income for the period		-	-	9,824	9,824	15,598	25,422
Share-based compensation	20.1	-	466	-	466	-	466
Dividends to owners of the Corporation		-	-	(23,101)	(23,101)	-	(23,101)
Distributions to non-controlling interest	10	-	-	-	-	(29,642)	(29,642)
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		475	-	-	475	-	475
Acquisition of additional interest in Unity Medical and Surgical Hospital		-	-	-	-	(789)	(789)
Investment in Black Hills Surgical Hospital, LLP by non-controlling interest		-	-	-	-	305	305
Sale of interest in City Place Surgery Center and other MFC Nueterra ASCs to non-controlling interest	1	-	-	-	-	4,570	4,570
Balance at December 31, 2019		**398,114**	**1,400**	**(274,466)**	**125,048**	**48,296**	**173,344**
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		-	-	20,927	20,927	30,622	51,549
Share-based compensation	20.1	-	412	-	412	-	412
Dividends to owners of the Corporation		-	-	(26,832)	(26,832)	-	(26,832)
Distributions to non-controlling interest	10	-	-	-	-	(35,543)	(35,543)
Acquisition of MFC Nueterra ASCs		-	-	-	-	6,149	6,149
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		1,211	-	-	1,211	-	1,211
Acquisition of additional interest in Unity Medical and Surgical Hospital		-	-	-	-	(3,814)	(3,814)
Disposal of MFC Nueterra ASCs to non-controlling interest		-	-	-	-	1,978	1,978
Balance at December 31, 2018		**397,639**	**934**	**(261,189)**	**137,384**	**58,254**	**195,638**

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

MEDICAL FACILITIES CORPORATION

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

		Year Ended December 31,	
	Note	2019 $	2018 $
Facility service revenue		**398,103**	**390,845**
Operating expenses			
Salaries and benefits		114,075	107,242
Drugs and supplies		128,445	122,873
General and administrative expenses		59,335	67,357
Impairment of goodwill	6.3	22,000	-
Depreciation of property and equipment	5	10,430	10,404
Depreciation of right-of-use assets	18.1	9,442	-
Amortization of other intangibles	6.2	9,920	10,475
		353,647	**318,351**
Income from operations		**44,456**	**72,494**
Finance costs (income)			
Change in value of convertible debentures	8	1,503	(2,901)
Change in value of exchangeable interest liability	12.1	(43,351)	(64)
Interest expense on exchangeable interest liability	12.1	7,416	8,592
Interest expense, net of interest income	16	7,903	3,488
Loss (gain) on foreign currency		(722)	778
		(27,251)	**9,893**
Income before income taxes		**71,707**	**62,601**
Income tax expense	15	12,030	9,263
Income for the period from continuing operations		**59,677**	**53,338**
Discontinued operations			
Loss for the period from discontinued operations, net of tax	4.3	(34,255)	(1,789)
Net income and comprehensive income for the period		**25,422**	**51,549**
Attributable to:			
Owners of the Corporation		9,824	20,927
Non-controlling interest	10	15,598	30,622
		25,422	**51,549**
Earnings (loss) per share			
From continuing and discontinued operations			
Basic	9.2	$ 0.32	$ 0.68
Fully diluted	9.2	$ (0.42)	$ 0.59
From continuing operations			
Basic	9.2	$ 1.21	$ 0.71
Fully diluted	9.2	$ 0.33	$ 0.62

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	Year Ended December 31, 2019 $	2018 $
Cash flows from operating activities			
Net income for the period		25,422	51,549
Adjustments for:			
Depreciation of property and equipment	5	11,709	11,772
Depreciation of right-of-use assets	18.1	9,791	-
Amortization of other intangibles	6.2	13,336	13,862
Impairment of goodwill and other intangibles	6.3	51,500	-
Share of equity loss (income) in associates	17.1	99	(133)
Change in value of convertible debentures	8	1,503	(2,901)
Change in value of exchangeable interest liability	12.1	(43,351)	(64)
Loss (gain) on foreign currency		-	778
Income tax expense	15	3,044	8,972
Share-based compensation	20.1	466	412
Non-cash gain		(987)	-
Loss on disposal of assets of Integrated Medical Delivery, LLC (“IMD”)		-	530
Interest expense, net of interest income		18,546	15,050
		91,078	99,827
Changes in non-cash operating working capital	11	1,520	(1,458)
		92,598	98,369
Interest paid, net of received		(15,527)	(15,049)
Income and withholding taxes received (paid)		304	(1,868)
Net cash provided by operating activities		**77,375**	**81,452**
Cash flows from investing activities			
Purchase of property and equipment	5	(12,567)	(21,837)
Business combinations (net of cash assumed)		-	(42,760)
Sale of interest in City Place Surgery Center and other MFC Nueterra ASCs to non-controlling interest	1	4,593	-
Investment in St. Luke’s Surgery Center of Chesterfield, LLC	1	(500)	-
Acquisition of additional interest in Unity Medical and Surgical Hospital		(789)	(3,814)
Investment in Black Hills Surgical Hospital, LLP by non-controlling interest		305	-
Sale of interest in South Dakota Interventional Pain Institute, LLC	17.1	46	-
Proceeds from disposal of MFC Nueterra ASCs to non-controlling interest		-	1,978
Proceeds from disposal of assets of IMD		-	3,100
Redemption of (investment in) short-term bank investments		10,284	(1,350)
Net cash provided by (used in) investing activities		**1,372**	**(64,683)**
Cash flows from financing activities			
Net proceeds from revolving credit facilities and issuance of notes payable	7	18,859	34,289
Repayments of notes payable at the Facilities	7	(4,614)	(7,142)
Payments of lease liabilities	18.3	(12,152)	-
Redemption of convertible debentures	8	(32,135)	-
Distributions, return of capital and loan receivable from an associate	17.1	109	87
Distributions to non-controlling interest	10	(29,642)	(35,543)
Dividends paid		(24,117)	(27,025)
Net cash used in financing activities		**(83,692)**	**(35,334)**
Decrease in cash and cash equivalents		**(4,945)**	**(18,565)**
Effect of exchange rate fluctuations on cash balances held		505	(778)
Classification of Unity Medical and Surgical Hospital cash as assets held for sale	4	(260)	-
Cash and cash equivalents, beginning of the period		36,686	56,029
Cash and cash equivalents, end of the period		**31,986**	**36,686**

Non-cash transactions:			
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		475	1,211

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

1. REPORTING ENTITY

Medical Facilities Corporation (the “Corporation”) is a British Columbia corporation. The address of the Corporation’s head office is 4576 Yonge Street, Suite 701, Toronto, Ontario, Canada. The common shares of the Corporation are listed on the Toronto Stock Exchange (“TSX”) under the ticker symbol “DR”.

The Corporation’s operations are based in the United States. Through its wholly-owned subsidiaries, the Corporation owns controlling interests in five specialty hospitals and seven ambulatory surgery centers (the “Facilities”). The Corporation also owns a 92% controlling interest in RRI Mishawaka Hospital, LP (“RRIMH”), an entity which owns the land and building for Unity Medical and Surgical Hospital (“UMASH”); however, as described below, an agreement has been entered into for the sale of such property.

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 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 the consolidated financial statements.

On December 19, 2019, the Corporation sold all of its controlling ownership interest of 38.3% in Central Arkansas Surgical Center. As a result, the Corporation no longer controls the facility and deconsolidated its balances of financial position from the consolidated balance sheet as at December 31, 2019.

On February 26, 2020, the Corporation announced that it has sold the majority of its interest in UMASH to a group of local investors (the “Buyers”), including leading physicians affiliated with South Bend Orthopedics, The South Bend Clinic, and Allied Physicians of Michiana. The Corporation no longer has a controlling interest in UMASH, with the Corporation’s ownership interest decreasing to 31.7% from 87.6%. As a result, it will no longer consolidate UMASH’s financial and operating results in the Corporation’s consolidated financial statements. Going forward, the Corporation will account for its interest in UMASH under the equity method of accounting. In connection to this transaction, the Corporation also announced the agreement for the sale of the real estate assets underlying UMASH, consisting of land and building, for approximately $25,000 in cash consideration, subject to adjustments for confirmatory due diligence and closing costs, to investors affiliated with the Buyers. Negotiations to sell the assets began before December 31, 2019 and they are classified as assets held for sale on the consolidated balance sheet as at December 31, 2019.

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

1. REPORTING ENTITY (Continued)

The Corporation received $1,100 in cash consideration for its equity interests, subject to customary adjustments, which implies an equity value for UMASH of $2,000, and an enterprise value of $23,100. In connection with the transaction, UMASH's debt obligation to the Corporation was reduced by $3,000, with the remaining $20,000 being structured on a five-year term at an interest rate of 6.75% secured by the Buyers' equity in UMASH. The Buyers have options to acquire more of the Corporation's equity interest in UMASH on both the first and second anniversaries of the transaction closing for the greater of the current per share purchase price or the fair market value of the interest at the time the purchase option is exercised. In the event that the Corporation's ownership in UMASH falls below 25%, all of the UMASH debt owed to the Corporation would be required to be immediately repaid. The parties anticipate needing to make capital contributions to fund working capital post-closing; the Corporation's share is anticipated to be approximately $1,400.

On December 31, 2019, the Corporation fully repaid the principal and interest of the 5.9% convertible unsecured subordinated debentures upon maturity. The Corporation used a combination of cash on hand and a draw of $16,000 from the corporate credit facility for the repayment.

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

		Ownership Interest December 31,	
Subsidiary	**Location**	**2019**	**2018**
Arkansas Surgical Hospital, LLC ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
Unity Medical and Surgical Hospital [(1)]	Mishawaka, Indiana	87.6%	79.2%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	64.0%	62.8%
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 [(2)]	Various	45.8%	51.5%

[(1)] The Corporation's current ownership interest declined to 31.7% after the sale of its controlling interest subsequent to the year-end, as described above.

[(2)] The Corporation has an average ownership interest of 45.8% based on values as at the reporting date. The six ambulatory surgery centers are situated in Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania.

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 21 to these consolidated financial statements.

These consolidated financial statements were approved for issue by the Corporation's Board of Directors on March 11, 2020.

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

3. BASIS OF PREPARATION

These consolidated financial statements include the accounts of the Corporation and its subsidiaries and have been prepared on the historical cost basis except for certain financial instruments and share-based compensation, which are measured at fair value (note 21.18).

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. ASSETS HELD FOR SALE

Prior to December 31, 2019, management committed to a plan to sell a controlling interest in UMASH and the real estate assets of RRIMH, which was subsequently completed on February 26, 2020 (note 1). Accordingly, the effected assets and liabilities are presented as "Assets held for sale" and "Liabilities directly associated with assets held for sale" as at December 31, 2019, and their financial results are presented as discontinued operations for the year ended December 31, 2019 and the year ended December 31, 2018.

4.1 Impairment losses relating to the assets

During the quarter ended June 30, 2019, a $29,500 impairment charge of goodwill and other intangibles was recorded in relation to the UMASH/RRIMH cash-generating unit ("CGU"). There were no further impairment losses recorded during the year ended December 31, 2019 in measuring the assets and liabilities for UMASH/RRIMH at the lower of its carrying amount and its fair value less costs to sell. The value of the assets held for sale is presented at its carrying amount.

4.2 Assets and liabilities held for sale

As of December 31, 2019, the assets held for sale and the liabilities directly associated with assets held for sale comprised the following assets and liabilities:

	Note	$
Cash		260
Accounts receivable		3,054
Supply inventory		655
Prepaid expenses and other		1,547
Property and equipment	5	26,453
Right-of-use assets	18.1	1,037
Other intangibles	6.2	5,776
Deferred income tax assets		4,638
Assets held for sale		**43,420**
Accounts payable		1,957
Accrued liabilities		2,062
Short-term debt	7	1,306
Lease liabilities	7	1,796
Liabilities directly associated with assets held for sale		**7,121**

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

4. ASSETS HELD FOR SALE (Continued)

4.3 Results of discontinued operations

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

		Year Ended December 31,	
		2019	2018
	Note	$	$
Facility service revenue		**23,363**	**40,757**
Operating expenses			
Salaries and benefits		12,839	13,521
Drugs and supplies		7,758	10,076
General and administrative expenses		8,235	11,515
Impairment of goodwill and other intangibles	6.3	29,500	-
Depreciation of property and equipment	5	1,279	1,368
Depreciation of right-of-use assets	18.1	349	-
Amortization of other intangibles	6.2	3,417	3,387
		63,377	39,867
Income (loss) from operations		**(40,014)**	**890**
Interest expense, net of interest income		3,227	2,970
Loss before income taxes		**(43,241)**	**(2,080)**
Income tax recovery		(8,986)	(291)
Loss for the period from discontinued operations, net of tax		**(34,255)**	**(1,789)**

4.4 Cash flows from discontinued operations

	Year Ended December 31,	
	2019	2018
	$	$
Net cash used in operating activities	(5,251)	(762)
Net cash provided by (used in) investing activities	1	(402)
Net cash provided by financing activities	3,559	2,094
Net cash flow for the period	**(1,691)**	**930**

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

5. PROPERTY AND EQUIPMENT

	Note	Land and Improvements $	Construction in Progress $	Building and Improvements $	Equipment and Furniture $	Total $
Cost						
Balance at January 1, 2018		7,350	1,142	99,600	66,336	174,428
Additions		595	4,084	5,601	11,589	21,869
Disposals		-	-	(149)	(348)	(497)
Purchase of MFC Nueterra ASCs		-	-	569	3,068	3,637
Disposal of IMD assets		-	-	(33)	(487)	(520)
Balance at December 31, 2018		7,945	5,226	105,588	80,158	198,917
Additions		-	4,854	3,565	4,148	12,567
Transfers		100	(7,176)	5,239	1,837	-
Disposals		(691)	-	(590)	(4,402)	(5,683)
Classification of UMASH/RRIMH as assets held for sale	4.2	(1,100)	-	(27,955)	(15,639)	(44,694)
Disposal of Central Arkansas Surgical Center		-	-	(1,117)	(1,822)	(2,939)
Balance at December 31, 2019		**6,254**	**2,904**	**84,730**	**64,280**	**158,168**
Accumulated Depreciation						
Balance at January 1, 2018		(142)	-	(32,756)	(46,458)	(79,356)
Charged for the year		(18)	-	(4,717)	(7,037)	(11,772)
Disposals		-	-	141	324	465
Disposal of IMD assets		-	-	6	223	229
Balance at December 31, 2018		(160)	-	(37,326)	(52,948)	(90,434)
Charged for the year		(14)	-	(5,131)	(6,564)	(11,709)
Disposals		-	-	742	4,060	4,802
Classification of UMASH/RRIMH as assets held for sale	4.2	-	-	3,672	14,569	18,241
Disposal of Central Arkansas Surgical Center		-	-	537	1,705	2,242
Balance at December 31, 2019		**(174)**	**-**	**(37,506)**	**(39,178)**	**(76,858)**
Carrying Amounts						
At December 31, 2018		7,785	5,226	68,262	27,210	108,483
At December 31, 2019		**6,080**	**2,904**	**47,224**	**25,102**	**81,310**

(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, 2019 was $135,983 (2018: $159,859), with the decrease due to the impairment charges recorded for UMASH/RRIMH and MFC Nueterra ASCs CGUs (note 6.3).

6.2 Other intangibles

	Note	Hospital Operating Licenses $	Medical Charts and Records $	Care Networks $	Trade Names $	Non-Compete $	Total $
Cost							
Balance at January 1, 2018		2,576	7,599	239,123	9,128	1,200	259,626
Purchase of MFC Nueterra ASCs		540	-	-	2,870	1,580	4,990
Balance at December 31, 2018		3,116	7,599	239,123	11,998	2,780	264,616
Impairment of other intangibles	4.1,6.3	-	-	(27,624)	-	-	(27,624)
Classification of UMASH as assets held for sale	4.2	(1,100)	(200)	(15,577)	-	-	(16,877)
Disposal of Central Arkansas Surgical Center		-	-	-	(149)	(154)	(303)
Balance at December 31, 2019		**2,016**	**7,399**	**195,922**	**11,849**	**2,626**	**219,812**
Accumulated Amortization							
Balance at January 1, 2018		(1,754)	(7,434)	(163,946)	-	(299)	(173,433)
Amortization charges		(205)	(14)	(12,792)	(131)	(720)	(13,862)
Balance at December 31, 2018		(1,959)	(7,448)	(176,738)	(131)	(1,019)	(187,295)
Amortization charges		(221)	(29)	(12,081)	(143)	(862)	(13,336)
Classification of UMASH as assets held for sale	4.2	719	93	10,289	-	-	11,101
Disposal of Central Arkansas Surgical Center		-	-	-	14	53	67
Balance at December 31, 2019		**(1,461)**	**(7,384)**	**(178,530)**	**(260)**	**(1,828)**	**(189,463)**
Carrying Amounts							
At December 31, 2018		1,157	151	62,385	11,867	1,761	77,321
At December 31, 2019		**555**	**15**	**17,392**	**11,589**	**798**	**30,349**
Amortization period (years)		5 - Indefinite Life	5-7	9-15	20 - Indefinite life	3-5	

6. GOODWILL AND OTHER INTANGIBLES (Continued)

6.3 Impairment

The Corporation performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2019 and December 31, 2018. For the year ended December 31, 2019, the Corporation recorded the following impairment losses: an impairment of goodwill in the MFC Nueterra ASCs CGU for $22,000; and an impairment of goodwill and other intangibles in the UMASH/RRIMH CGU for $29,500 of which $1,876 is related to goodwill and $27,624 to other intangibles.

Of the total charge of $22,000 in the MFC Nueterra ASCs CGU, $19,540 pertained to the Corporation's controlling interest, while $2,460 related to the non-controlling interest owners. Of the total charge of $29,500 in the UMASH/RRIMH CGU, $23,840 pertained to the Corporation's controlling interest, while $5,660 related to the non-controlling interest owners. In these consolidated financial statements, the $29,500 impairment charge has been recorded in the loss from discontinued operations (note 4.3).

For the year ended December 31, 2018, the Corporation did not record any impairment losses.

The Corporation identified seven CGUs for which impairment testing was performed. The UMASH/RRIMH CGU contains the assets of two separate subsidiaries of the Corporation, because the assets of RRIMH consist of the land and building of UMASH's primary facility, making the two entities interdependent. The MFC Nueterra ASCs, which are managed as a network, collectively represent another CGU. The remaining Facilities represent subsidiary operations which are independent of each other, and are therefore identified as separate CGUs.

For the December 31, 2019 impairment test, management calculated the recoverable amount of the MFC Nueterra ASCs CGU by determining the value in use ("VIU"), and of the remaining CGUs by determining the fair value less costs to sell ("FVLCS"). Management has estimated cost to sell to be 1% of the fair value of the CGUs, based on recent market data. The enterprise value to earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples of 8.5 to 9.0 (2018: 9.0 to 10.5) were determined to be appropriate based on the factors specific to each CGU and a comparison to market information available at the time of the test.

The VIU of the MFC Nueterra ASCs CGU was determined based upon a 50/50 weighting of an income approach and a market approach. The income approach value was derived 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* ("IFRS 13"). Cash flows for fiscal 2020 to fiscal 2024 were projected based on past experience, actual operating results normalized for non-routine items, and budgeted projections, with revenue growth rates over five years ranging from negative 3.5% to positive 3.2% based on a projection of the number of cases and revenue per case, with a terminal growth rate of 2.5%. Projected cash flows were discounted using a post-tax rate of 13.0%. The pre-tax rate is 14.7%. 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)

6. GOODWILL AND OTHER INTANGIBLES (Continued)

The market approach value was derived by applying a market multiple to trailing twelve-month EBITDA as of December 31, 2019 and estimated 2020 EBITDA. The market multiple was estimated based upon a review of public company ambulatory surgery center transaction multiples, non-public ambulatory surgery center transaction multiples provided by a third-party consultant, and guideline public company multiples.

The FVLCS 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. Cash flows for fiscal 2020 to fiscal 2024 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.

For the year ended December 31, 2018, the recoverable amount of the CGUs was based on FVLCS. The FVLCS of the UMASH/RRIMH CGU was determined by discounting the future cash flows generated from continuing use. Cash flows for fiscal 2019 to fiscal 2023 were projected based on past experience, actual operating results normalized for non-routine items, and budget projections, with revenue growth rates over five years ranging from 4.2% to 8.2% based on a projection of the number of cases and revenue per case, with a terminal growth rate of 3.0%. Projected cash flows were discounted using a pre-tax rate of 12.0%. The discount rate was estimated based on a weighted average cost of capital, which is based on a risk-free rate, plus various risk premiums including a size premium and a specific Corporation risk premium.

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, (ii) the fair value of convertible debentures outstanding for December 31, 2018, and (iii) the Corporation’s portion of the Facilities’ long-term debt, less (iv) cash on hand.

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

	Year Ended December 31,	
	2019 **$**	**2018** **$**
ASH	17,911	17,911
OSH	17,436	17,436
BHSH	31,244	31,244
SFSH	60,896	60,896
SCNC	2,265	2,264
MFC Nueterra ASCs	15,900	37,900
UMASH/RRIMH	-	1,876
	145,652	**169,527**

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

7. LONG-TERM DEBT AND LEASE LIABILITIES

		2019			2018	
	Maturity	Authorized	Balance	Effective Interest Rate	Balance	Effective Interest Rate
		$	$	%	$	%
Revolving credit facilities						
ASH	Jun 20, 2020	4,000	-	5.0	1,439	5.0
ASH	Jul 20, 2020	4,000	-	4.5	879	5.5
OSH	Nov 4, 2021	6,350	5,400	LIBOR+2.6	3,000	LIBOR+2.2
BHSH	Aug 12, 2020	5,415	-	LIBOR+1.3	-	-
BHSH	Jul 1, 2021	6,000	2,500	LIBOR+1.3	700	LIBOR+1.3
SFSH	Dec 31, 2019	-	-	-	111	LIBOR+1.1
SFSH	Oct 1, 2020	7,000	2,525	LIBOR+1.0	1,930	LIBOR+1.0
SCNC	Jul 31, 2020	2,500	-	LIBOR+3.5	-	LIBOR+3.5
MFC Nueterra ASCs	Mar 31, 2020	78	78	5.8	-	-
		35,343	**10,503**		**8,059**	
Corporate credit facility						
MFC	Aug 31, 2023	**150,000**	**84,800**	LIBOR+2.0	**68,800**	LIBOR+2.0
Notes payable						
ASH	Oct 31, 2021		615	4.3	768	4.3
ASH	Aug 27, 2026		2,044	4.7	-	-
ASH	Oct 2, 2020		815	5.8	-	-
OSH	Jun 30, 2025		1,890	5.1	2,184	5.1
BHSH	Sep 1, 2020		390	2.8	898	2.8
BHSH	Jun 1, 2021		4,026	3.0	4,315	3.0
BHSH	Dec 31, 2021		335	3.7	411	3.7
BHSH	Aug 1, 2023		2,525	3.8	2,746	4.6
BHSH	Dec 20, 2023		3,100	3.6	3,200	4.8
BHSH	Mar 19, 2024		212	3.8	-	-
BHSH	Oct 31, 2024		3,222	3.0	3,814	3.0
BHSH	May 10, 2027		1,420	4.0	1,580	4.0
SFSH	Oct 1, 2021		5,434	1.8	10,080	2.9
SFSH	Nov 15, 2021		205	2.9	308	2.9
SFSH	Dec 15, 2021		397	2.3	589	2.3
SFSH	Mar 17, 2022		907	3.2	1,290	3.2
SFSH	Jan 1, 2024		839	4.3	1,008	4.3
SFSH	Apr 1, 2024		407	4.0	-	-
SFSH	Jun 1, 2026		1,016	2.4	-	-
SFSH	Dec 31, 2028		24,357	4.7	25,060	4.7
SFSH	Jul 1, 2029		1,058	4.8	-	-
SCNC	Aug 5, 2023		436	4.2	-	-
MFC Nueterra ASCs	Sep 30, 2022		74	6.5	-	-
MFC Nueterra ASCs	Nov 30, 2022		35	3.5	-	-
MFC Nueterra ASCs	Aug 1, 2023	-	-	-	61	9.2
MFC Nueterra ASCs	Jun 1, 2024		110	4.9	-	-
MFC Nueterra ASCs	Jun 30, 2024		213	4.0	-	-
UMASH	Jun 23, 2020		-	-	3,596	4.8
			56,082		**61,908**	

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

7. LONG-TERM DEBT AND LEASE LIABILITIES (Continued)

			2019		2018	
	Maturity	Authorized	Balance	Effective Interest Rate	Balance	Effective Interest Rate
		$	$	%	$	%
Lease liabilities (2018: capital leases) (note 21.27.1)						
ASH	2020 - 2030		39,370	4.0 - 5.4	902	6.4
OSH	2021 - 2026		12,377	4.2 - 5.4	-	-
BHSH	2020 - 2027		1,520	3.7 - 5.4	-	-
SFSH	2020 - 2032		7,002	3.7 - 5.5	125	1.6
SCNC	2020 - 2022		1,458	4.8 - 5.0	-	-
MFC Nueterra ASCs	2020 - 2027		5,279	5.3 - 5.6	515	3.5 - 9.7
MFC	2020 - 2022		375	4.8 - 5.3	-	-
UMASH	-		-	-	82	5.7
			67,381		**1,624**	
Total long-term debt and lease liabilities			**218,766**		**140,391**	
Less current portion			(33,462)		(21,086)	
			185,304		**119,305**	

Each credit facility and note payable is secured by an interest in all property and a mortgage on real property owned by the respective Facility. These credit facilities and notes payable contain certain restrictive financial and non-financial covenants. As at December 31, 2019, the Facilities were in compliance with their covenants, with the exception of OSH.

OSH was in violation of the financial covenant for its revolving credit facility as at December 31, 2019, and amended its credit agreement with the creditor prior to the issuance of financial statements, effective December 31, 2019. As a result of this covenant violation, the entire outstanding balance of OSH's revolving credit facility was classified in current liabilities as at December 31, 2019.

The following are the future maturities of long-term debt and lease liabilities for the years ending December 31:

	$
2020	26,772
2021	19,620
2022	12,420
2023	15,065
2024 and thereafter	144,889
Future maturities of long-term debt	**218,766**

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

7. LONG-TERM DEBT AND LEASE LIABILITIES (Continued)

The movements of long-term debt and lease liabilities are reconciled to cash flows arising from financing activities as follows:

	Note	Long-term debt $	Lease liabilities $
Balance as at January 1, 2019	21.27.1	140,391	66,358
Changes from financing activities:			
Net proceeds from revolving credit facilities and issuance of notes payable		18,859	-
Repayments of notes payable at the Facilities		(4,614)	-
Payments of lease liabilities		-	(12,152)
Other changes:			
Adoption of IFRS 16, *Leases*	21.27.1	(905)	905
Disposition		(1,040)	(1,422)
Liabilities directly associated with assets held for sale	4.2	(1,306)	(1,796)
Interest expense		-	3,524
New lease agreements		-	11,964
Balance as at December 31, 2019		**151,385**	**67,381**

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 paid interest semi-annually in arrears on June 30 and December 31 of each year until maturity on December 31, 2019, when the principal amount was due and payable in full.

On December 31, 2019, the Corporation fully repaid the principal amount and accrued interest in respect of the convertible debentures in the amount of Cdn$42,974 upon maturity, and the convertible debentures were delisted from the TSX in connection therewith. The Corporation used a combination of cash on hand and a draw of $16,000 from the corporate credit facility for the repayment.

The following table represents changes in the convertible debentures for the years 2019 and 2018:

	$
Balance at January 1, 2018	33,533
Change in fair value of convertible debentures at market price	(2,901)
Balance at December 31, 2018	30,632
Change in fair value of convertible debentures at market price	1,503
Redemption of convertible debentures	(32,135)
Balance at December 31, 2019	**-**

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

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 2019 and 2018:

	Number of Common Shares	$
Balance at January 1, 2018	30,950,345	396,428
Common shares issued on exchangeable interest (note 12.1)	104,155	1,211
Balance at December 31, 2018	31,054,500	397,639
Common shares issued on exchangeable interest (note 12.1)	51,759	475
Balance at December 31, 2019	**31,106,259**	**398,114**

9.2 Earnings (loss) per share

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

		Year Ended December 31,					
		2019			2018		
		Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	$	37,647	(27,823)	9,824	22,075	(1,148)	20,927
Divided by weighted average number of common shares outstanding for the period		31,084,900	31,084,900	31,084,900	30,998,008	30,998,008	30,998,008
Basic earnings (loss) per share attributable to owners of the Corporation	**$**	**1.21**	**(0.89)**	**0.32**	**0.71**	**(0.03)**	**0.68**

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

9. SHARE CAPITAL (Continued)

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

		Year Ended December 31,					
		2019			2018		
		Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	$	37,647	(27,823)	9,824	22,075	(1,148)	20,927
Change in value of exchangeable interest liability (tax effected)		(32,947)	-	(32,947)	-	-	-
Interest expense on exchangeable interest liability		7,416	-	7,416	-	-	-
Change in value of convertible debentures		-	-	-	(2,901)	-	(2,901)
Interest expense on convertible debentures (tax effected)		-	-	-	1,396	-	1,396
Modified net income (loss) for the period attributable to owners of the Corporation	$	12,116	(27,823)	(15,707)	20,570	(1,148)	19,422
Weighted average number of common shares:							
Outstanding for the period		31,084,900	31,084,900	31,084,900	30,998,008	30,998,008	30,998,008
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		5,963,069	5,963,069	5,963,069	-	-	-
Deemed to be issued on the conversion of the outstanding convertible debentures		-	-	-	2,184,353	2,184,353	2,184,353
Weighted average number of common shares (1)(2)		37,047,969	37,047,969	37,047,969	33,182,361	33,182,361	33,182,361
Fully diluted earnings (loss) per share	**$**	**0.33**	**(0.75)**	**(0.42)**	**0.62**	**(0.03)**	**0.59**

(1) *For the period ended December 31, 2019, the impact of convertible debentures was excluded from the dilutive weighted average number of common shares calculation because it is not applicable after its repayment of principals on December 31, 2019. The impact of share-based compensation was excluded from the dilutive weighted average number of common shares calculation because it is not applicable based on the share price prevailing at December 31, 2019.*

(2) *For the period ended December 31, 2018, the impacts of exchangeable interest liability 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 December 31, 2018.*

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

9. SHARE CAPITAL (Continued)

9.3 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. During the years ended December 31, 2019 and December 31, 2018, the Corporation did not purchase any of its common shares.

10. NON-CONTROLLING INTEREST

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

December 31, 2019

	ASH $	UMASH $	OSH $	BHSH $	SFSH $	SCNC $	RRIMH $	MFC Nueterra ASCs $
Non-controlling interest percentage	**44%**	**12%**	**35%**	**35%**	**35%**	**49%**	**8%**	**44-74%**
Current assets	10,987	5,516	20,131	15,318	31,822	2,664	689	6,964
Non-current assets	44,908	2,202	17,544	31,034	60,113	2,402	25,052	7,322
Current liabilities	8,407	6,608	10,749	8,420	9,530	264	545	2,403
Non-current liabilities	42,784	19,919	19,404	19,248	44,120	1,894	27,265	5,691
Equity attributable to owners of the Corporation	2,634	(16,478)	4,889	12,145	24,885	1,483	(1,903)	2,555
Non-controlling interest	2,070	(2,331)	2,633	6,539	13,400	1,425	(166)	3,637
Facility service revenue	69,709	23,363	74,159	95,510	118,488	7,659	2,300	32,578
Operating expenses	50,410	31,129	65,166	68,912	76,095	5,540	4	26,311
Net income (loss) attributable to owners of the Corporation	6,590	(8,351)	3,684	14,351	23,399	530	(513)	1,437
Net income (loss) attributable to non-controlling interest	5,178	(1,182)	1,984	7,728	12,600	509	(45)	2,040
Net income (loss)	**11,768**	**(9,533)**	**5,668**	**22,079**	**35,999**	**1,039**	**(558)**	**3,477**
Distributions to non-controlling interest	6,052	-	2,468	8,953	13,034	717	-	2,028
Cash flows from operating activities	16,999	(5,367)	4,757	26,336	36,200	1,278	116	5,748
Cash flows from investing activities	(2,370)	1	(656)	(4,293)	(1,588)	28	-	(10,035)
Cash flows from financing activities (1)	(12,977)	3,559	(4,744)	(21,307)	(35,522)	(1,607)	-	4,231
Net cash inflow (outflow)	**1,652**	**(1,807)**	**(643)**	**736**	**(910)**	**(301)**	**116**	**(56)**

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

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

10. NON-CONTROLLING INTEREST (Continued)

December 31, 2018

	ASH $	UMASH $	OSH $	BHSH $	SFSH $	SCNC $	RRIMH $	MFC Nueterra ASCs $
Non-controlling interest percentage	**44%**	**21%**	**35%**	**35%**	**35%**	**49%**	**8%**	**44-62%**
Current assets	8,661	11,813	15,859	14,460	30,531	2,965	574	8,149
Non-current assets	8,682	1,536	5,457	28,693	52,622	698	25,726	1,703
Current liabilities	7,816	7,258	7,429	7,633	9,436	336	547	3,488
Non-current liabilities	3,988	15,368	5,184	17,664	40,501	-	27,265	829
Equity attributable to owners of the Corporation	3,102	(7,345)	5,657	11,607	21,590	1,697	(1,391)	2,959
Non-controlling interest	2,437	(1,932)	3,046	6,250	11,626	1,630	(121)	2,576
Facility service revenue	67,848	40,757	72,737	91,292	115,636	8,352	2,255	34,061
Operating expenses	53,496	37,361	61,782	63,727	74,553	6,204	6	28,016
Net income (loss) attributable to owners of the Corporation	7,192	1,701	6,328	15,156	24,039	987	(558)	2,783
Net income (loss) attributable to non-controlling interest	5,650	448	3,407	8,161	12,944	948	(48)	2,552
Net income (loss)	**12,842**	**2,149**	**9,735**	**23,317**	**36,983**	**1,935**	**(606)**	**5,335**
Distributions to non-controlling interest	6,309	-	3,731	10,076	15,170	931	-	2,618
Cash flows from operating activities	14,656	(830)	10,734	26,858	39,674	2,216	68	6,359
Cash flows from investing activities	(3,536)	(402)	(3,322)	(5,232)	(6,949)	(162)	-	(574)
Cash flows from financing activities [1]	(12,067)	2,094	(6,744)	(22,628)	(34,358)	(1,900)	-	(4,866)
Net cash inflow (outflow)	**(947)**	**862**	**668**	**(1,002)**	**(1,633)**	**154**	**68**	**919**

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

10.1 Significant restrictions

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

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

11. NET CHANGES IN NON-CASH WORKING CAPITAL

The net changes in non-cash working capital included in the consolidated statements of cash flows, exclusive of the assets held for sale classification and business combination impact, consist of the following:

	Year Ended December 31,	
	2019 $	2018 $
Accounts receivable	(2,280)	484
Supply inventory	432	(808)
Prepaid expenses and other	159	(1,712)
Accounts payable	2,668	(1,747)
Accrued liabilities	541	2,325
Net changes in non-cash working capital	**1,520**	**(1,458)**

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 Exchangeable interest liability

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

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

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

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

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, 2019 and December 31, 2018 are as follows:

	December 31,	
	2019	**2018**
Number of common shares to be potentially issued for exchangeable interest liability	5,955,277	5,970,862
Fair value of the exchangeable interest liability in thousands of U.S. dollars	US$ 22,006	US$ 65,832
Fair value of the exchangeable interest liability in thousands of Canadian dollars	Cdn$ 28,585	Cdn$ 89,802

12.2 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.

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

	December 31, 2019 $	December 31, 2018 $
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	31,986	36,686
Short-term investments	-	10,284
Amortized cost		
Accounts receivable	66,454	67,312
Financial liabilities		
Fair value through profit or loss		
Convertible debentures	-	30,632
Exchangeable interest liability	22,006	65,832
Amortized cost		
Dividends payable	1,118	2,134
Accounts payable	23,601	23,138
Accrued liabilities	17,768	22,721
Corporate credit facility	84,800	68,800
Long-term debt	66,585	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 amortized cost or fair value through profit or loss as of December 31, 2019 and December 31, 2018. It does not include fair value information for financial instruments which are short-term in nature.

	December 31, 2019			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	31,986	-	-	31,986
Financial liabilities				
Exchangeable interest liability	-	22,006	-	22,006
Corporate credit facility	-	84,800	-	84,800
Long-term debt	-	66,585	-	66,585
Total	**31,986**	**173,391**	**-**	**205,377**

	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**

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.3 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.

12.4 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 consolidated financial statements. Financial risks are outlined below as well as policies and procedures established by the Corporation for monitoring and controlling these risks.

12.4.1 Foreign exchange risk

Dividends to common shareholders of the Corporation, exchangeable interest liability, interest on convertible debentures up to December 31, 2019, and a portion of the Corporation's expenses are settled in Canadian dollars while all of its revenues are in U.S. dollars. To mitigate this risk, from time to time, the Corporation may enter into foreign exchange forward contracts to economically hedge its exposure to the fluctuation of the exchange rate between U.S. and Canadian dollars. The Corporation has foreign exchange hedging policies in place and the execution of these policies is monitored by the Audit Committee of the Board of Directors. As at December 31, 2019 and 2018, no foreign exchange forward contracts existed.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The values of Canadian dollar cash and cash equivalents, short-term investments, 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	2019 $	2018 $
1% strengthening of the Canadian dollar	(813)	(1,185)
1% weakening of the Canadian dollar	813	1,185

12.4.2 Credit risk

The Corporation faces the following credit risks.

Revenue and Accounts Receivable

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

(i) governmental payors,

(ii) health and workers' compensation insurance companies,

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

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

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

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

Services to the beneficiaries of Medicare and Medicaid and other governmental insurance programs as well as independent members of the Blue Cross and Blue Shield System are reimbursed primarily based on the established amounts, service codes and fees schedules subject to certain limitations. Reimbursements from other private insurance companies are based on the discounts from the rate established at the Facilities in accordance with the contracts with such companies (see note 21.23).

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

The table below summarizes the percentages of facility service revenue generated from and accounts receivable balances with each primary third-party payor group in 2019 and 2018:

	2019		2018	
	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)	33.9	14.8	33.0	14.1
Blue Cross and Blue Shield – category (ii)	30.1	29.4	30.7	28.5
Workers' compensation – category (ii)	7.8	12.4	8.0	12.1
Other private insurance – category (iii)	20.6	25.1	21.0	25.9
Other insurance and self-pay – categories (iv) and (v)	7.6	18.3	7.3	19.4
	100.0	**100.0**	**100.0**	**100.0**

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

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

The table below summarizes the aging of the Corporation's accounts receivable and related allowance for non-collectible receivable balances as at December 31, 2019 and December 31, 2018:

Accounts receivable	2019 $	2018 $
Neither past due nor impaired	51,328	55,556
Past due 61-90 days	7,274	5,247
Past due 91-120 days	4,881	3,683
Past due 121-150 days	1,909	2,847
Past due more than 151 days	9,095	8,998
Allowance for non-collectible receivable balances	(8,033)	(9,019)
Net accounts receivable	**66,454**	**67,312**

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

12.4.3 Interest rate risk

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

The interest rate profile of the Corporation's interest-bearing financial liabilities as at December 31, 2019 and December 31, 2018 was:

	December 31,	
	2019	**2018**
	$	**$**
Facilities with fixed interest rates	122,647	96,482
Facilities with variable interest rates	96,119	74,541
Total	**218,766**	**171,023**

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 $853 (2018: $643) on facilities with variable interest rates. This does not include the impact of the adjustment of fair value of the convertible debentures as at December 31, 2018 since these are fixed-rate instruments.

12.4.4 Price risk

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.4.5 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, 2019, are as follows:

Contractual Obligations	Carrying values at December 31, 2019 $	Future payments (including principal and interest) Total $	Less than 1 year $	1-3 years $	4-5 years $	After 5 years $
Dividends payable	1,118	1,118	1,118	-	-	-
Accounts payable	23,601	23,601	23,601	-	-	-
Accrued liabilities	17,768	17,768	17,768	-	-	-
Income tax payable	2,212	2,212	2,212	-	-	-
Corporate credit facility	84,800	96,460	2,120	7,420	86,920	-
Facilities' revolving credit facilities	10,503	10,602	10,602	-	-	-
Notes payable	56,082	64,212	10,484	18,786	13,130	21,812
Lease liabilities	67,381	90,878	11,229	22,703	19,697	37,249
Total contractual obligations	**263,465**	**306,851**	**79,134**	**48,909**	**119,747**	**59,061**

The $150,000 corporate credit facility, which matures on August 31, 2023, had $65,200 undrawn as at December 31, 2019.

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 prior to maturing on December 31, 2019 (note 8) and other debt facilities at the corporate level.

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

In addition, the Corporation regularly monitors current and forecasted debt levels and key ratios to ensure compliance with debt covenants. As of the reporting date, the Corporation and Facilities were in compliance with their covenants, with the exception of OSH (note 7). 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 November 2019, the financial covenants of the corporate credit facility were modified by agreement with lenders.

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

13. CAPITAL (Continued)

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 years ended December 31, 2019 and December 31, 2018, the Corporation did not repurchase any common shares. During the year ended December 31, 2019, the Corporation redeemed its maturing convertible debentures using funds from internal cash resources and a draw on its credit facility.

14. EMPLOYEE FUTURE BENEFITS

Benefits programs at the subsidiaries include qualified 401(k) retirement plans which cover all employees who meet eligibility requirements. Each participating Facility makes matching contributions subject to certain limits. In 2019, contributions made by the subsidiaries to such plans were $2,197 (2018: $2,064).

15. INCOME TAXES

The U.S. tax return for the Corporation is prepared on a consolidated basis for U.S. entities and includes balances and amounts attributable to these entities. The *Tax Cuts and Jobs Act* (“TCJA”), which took effect January 1, 2018 for the Corporation, reduced the United States federal corporate income tax rate to 21% from the Corporation’s effective federal tax rate of 34%. This new 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 from continuing operations reported in these consolidated financial statements are as follows:

Provision for Income Taxes	**2019 $**	**2018 $**
Current	5,062	2,167
Deferred	6,968	7,096
Income tax expense from continuing operations	**12,030**	**9,263**

(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 statements of income and comprehensive income:

	2019		2018	
	$	%	$	%
Net income for the year from continuing operations attributable to the owners of the Corporation	37,647		22,075	
Income tax expense from continuing operations	12,030		9,263	
Income before income taxes	49,677	100.0	31,338	100.0
Income taxes at the statutory rate in Canada	13,164	26.5	8,305	26.5
Effect of:				
Impact of differences between statutory tax rates in Canada and U.S.	(760)	(1.5)	(226)	(0.7)
Other including non-taxable and non-deductible amounts	(1,048)	(2.1)	492	1.6
Change in value of exchangeable interest liability	368	0.7	724	2.3
Change in value of convertible debentures	341	0.7	(769)	(2.5)
Foreign exchange losses (gains)	(35)	(0.1)	437	1.4
Book to tax adjustment	-	-	580	1.9
State net operating loss carryforward	-	-	(280)	(0.9)
Income tax expense from continuing operations	**12,030**	**24.2**	**9,263**	**29.6**

The components of deferred income tax balances are as follows:

	2019 $	2018 $
Deferred income tax assets		
Allowance for non-collectible receivable balance	953	977
Accrued liabilities and other	2,004	2,647
Goodwill and other intangibles	3,069	10,387
Cumulative change in the value of exchangeable interest liability	(6,195)	4,209
Net operating losses and deductions carry forwards	6,198	5,737
Total deferred income tax assets	**6,029**	**23,957**
Deferred income tax liabilities		
Property and equipment	(2,563)	(3,306)
Prepaid expenses and other	(112)	(101)
Goodwill and other intangibles	(7,822)	(20,310)
Total deferred income tax liabilities	**(10,497)**	**(23,717)**
Net deferred income tax assets (liabilities)	**(4,468)**	**240**

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

16. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income, from continuing operations included in the consolidated statements of income and comprehensive income consist of the following:

	2019 $	2018 $
Interest expense at Facilities' level	2,949	1,756
Interest expense on convertible debentures	1,851	1,899
Interest expense at corporate level	2,943	2,846
Interest expense on lease liabilities	3,133	-
Amortization of corporate credit facility stand-by fees	570	184
Interest income at Facilities' level	(37)	(61)
Interest income at corporate level	(3,506)	(3,136)
Interest expense, net of interest income, from continuing operations	**7,903**	**3,488**

17. RELATED PARTY TRANSACTIONS AND BALANCES

17.1 Equity accounted investments

The Corporation owns a 54.22% equity interest in Mountain Plains Real Estate Holdings, LLC ("MPREH"), an entity over which it has significant influence. The Corporation uses the equity method to account for this investment, which was valued at $733 as of December 31, 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 of December 31, 2019 was $4 and $nil, respectively (December 31, 2018: $590 and $28). 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 as of December 31, 2019 (December 31, 2018: $341), for which the investment is accounted for at cost in the consolidated financial statements.

The Corporation owns a 28.0% equity interest in St. Luke's ASC, an entity over which it has significant influence. The Corporation uses the equity method to account for this investment, which was valued at $485 as of December 31, 2019 (December 31, 2018: $nil).

Together, the four investments comprise the "Other assets" on the consolidated balance sheets.

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

17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

17.2 Related party transactions

A member of the Corporation's Board of Directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the year ended December 31, 2019 of $4,501 (December 31, 2018: $4,501).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facilities and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. For the year ended December 31, 2019, SFSH paid SDIPI $235 for the use of a facility and related equipment (December 31, 2018: $660). As of December 31, 2019, SFSH had a balance payable to SDIPI of $1,016 (December 31, 2018: $39). For the year ended December 31, 2019, BHSH paid MPREH $180 for the use of a facility (December 31, 2018: $180).

17.3 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 ended December 31, 2019 and 2018 was as follows:

	2019 $	2018 $
Salaries and other employee benefits for executive officers	3,293	2,690
Director compensation	849	855
Total key management and governance compensation	**4,142**	**3,545**

Salaries and other employee benefits for executive officers include payments to executive officers for their base salaries, the Corporation's portion of social security and Medicare taxes, medical insurance and short-term and long-term disability benefit payments, separation payments, payments under the Corporation's short-term incentive plan, and share-based compensation relating to stock options, performance share units, and restricted share units which have vested. Director compensation consists of board, committee and travel retainers.

17.4 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 the Chief Medical Officer of the Corporation.

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

18. LEASES

The Corporation leases some hospital and office premises, as well as medical and office equipment. These leases are negotiated and entered into locally at each of the Facilities, as well as at the Corporation.

18.1 Right-of-use assets

Right-of-use assets	Note	Premises $	Medical Equipment $	Office Equipment $	Total $
Balance at January 1, 2019	21.27.1	61,447	486	1,345	63,278
New lease agreements		11,467	1,708	2,477	15,652
Termination of lease agreements		(3,729)	-	-	(3,729)
Depreciation expense		(8,718)	(405)	(668)	(9,791)
Classification of UMASH as assets held for sale		(695)	(328)	(14)	(1,037)
Ending balance at December 31, 2019		**59,772**	**1,461**	**3,140**	**64,373**

18.2 Amounts recognized in consolidated statements of income and comprehensive income

Leases under IFRS 16, *Leases ("IFRS 16")* – for the year ended December 31, 2019	**$**
Interest on lease liabilities	3,133
Expenses relating to short-term leases	17
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	40

Leases under IAS 17, *Leases* ("IAS 17") – for the year ended December 31, 2018	**$**
Lease expense	10,781

18.3 Amounts recognized in consolidated statement of cash flows

For the year ended December 31, 2019	**$**
Payment of lease liabilities	(12,152)

18.4 Extension options

Some premises and equipment leases contain extension options exercisable by the Corporation before the end of the non-cancellable contract period. When practicable, the Corporation seeks to include extension options in new leases to provide operational flexibility. The Corporation assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Corporation reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

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

19. COMMITMENTS AND CONTINGENCIES

19.1 Commitments

In the normal course of operations, the Facilities lease certain equipment under non-cancellable long-term leases and enter into various commitments with third parties. In addition, certain of the Facilities lease their facility space from related and non-related parties. With the adoption of IFRS 16 on January 1, 2019, significant portions of such lease commitments were recognized on the consolidated balance sheets (notes 7 and 21.27.1).

19.2 Contingencies

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

20. SHARE-BASED COMPENSATION

20.1 Stock options

The following table summarizes the outstanding number of stock options as of December 31, 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
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	**1,894,906**		

Outstanding options (the "Options") will vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of December 31, 2019, 444,906 of the Options relating to Former Chief Executive Officer and Former Chief Financial Officer were vested.

During the year ended December 31, 2019, the Corporation recognized $466 (December 31, 2018: $412) 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. On December 11, 2019, stock options to acquire 120,000 common shares, previously granted in 2018 to the former Vice President, Operations, were forfeited.

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

20. SHARE-BASED COMPENSATION (Continued)

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 Grant Issued	Q1 2018 Grants Issued	Q2 2017 Grant Issued	Q4 2016 Grant Issued	Q3 2016 Grant Issued	Q2 2016 Grant 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%

20.2 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 year ended December 31, 2019, director compensation included DSU grants of $481 (December 31, 2018: $493), while the change in market value of outstanding DSUs for the same period was a recovery of $1,080 (December 31, 2018: expense of $104).

The following table summarizes changes in the DSUs for year ended December 31, 2019:

	2019
Opening balance of DSUs at January 1, 2019	151,211
DSUs granted on director fees	79,229
DSUs paid out	(46,736)
DSUs granted on dividend reinvestment	15,870
Total number of DSUs at December 31, 2019	**199,574**

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

20. SHARE-BASED COMPENSATION (Continued)

20.3 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, on 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 year ended December 31, 2019, operating expenses included a nominal RSU recovery (December 31, 2018: expense of $223). As at December 31, 2019, the liability for RSUs was $55 (December 31, 2018: $200).

The following table summarizes changes in the RSUs for the year ended December 31, 2019:

	2019
Opening balance of RSUs at January 1, 2019	40,070
RSUs granted on dividend reinvestment	3,006
RSUs vested and settled	(3,239)
RSUs forfeited	(14,916)
Total number of RSUs at December 31, 2019	**24,921**

20.4 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 year ended December 31, 2019, operating expenses included a PSU recovery of $33 (December 31, 2018: expense of $145). As at December 31, 2019, the liability for PSUs was $100 (December 31, 2018: $145).

The following table summarizes changes in the PSUs for the year ended December 31, 2019:

	2019
Opening balance of PSUs at January 1, 2019	62,493
PSUs granted on dividend reinvestment	8,862
PSUs granted	51,077
PSUs vested and settled	(4,195)
PSUs forfeited	(47,275)
Total number of PSUs at December 31, 2019	**70,962**

21. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the adoption of IFRS 16 as disclosed in note 21.22, and have been applied consistently by the Facilities.

21.1 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.

21.2 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.

21.3 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.4 Business combinations

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

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

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.

21.5 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

21.6 Discontinued operations

A discontinued operation is a component of the Corporation's business which can be clearly distinguished from the rest of the Corporation, both operationally and for financial reporting purposes. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative consolidated statement of income and comprehensive income is 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 net of tax amount as net income from discontinued operations in the consolidated statements of net income and comprehensive income.

21.7 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.

21.8 Short-term and long-term investments

Investments represent liquid investments purchased with a maturity greater 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.9 Accounts receivable

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

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

(ii) An allowance for non-collectible receivable balances is recognized at a level management believes is adequate to absorb probable losses. Management determines the adequacy of the allowance based on historical data, current economic conditions, and other pertinent factors for the respective 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.

21.10 Supply inventory

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

21.11 Property and equipment

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

Depreciation of property and equipment is computed using the straight-line and declining balance methods over the estimated useful lives of the assets. 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.12 Right-of-use assets

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.

21.13 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.

21.14 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.

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	9-15 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.15 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 six 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 calculated based on two approaches: 1) the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, and 2) the trailing twelve months and estimated future EBITDA multiplied by a market multiple relevant to the CGU.

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.

21.16 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.

21.17 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.17.1 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.

The Corporation applies expected credit loss ("ECL") models to the assessment of impairment on accounts receivables and other financial assets of the Corporation. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which is determined on a probability-weighted basis. The impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments. The Corporation adopts the practical expedient to determine ECL on trade receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL model applied to other financial assets also requires judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset.

Impairment losses are recorded in general and administrative expenses in the consolidated statements of income and comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such a decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the consolidated statements of income and comprehensive income. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.17.2 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.

21.18 Measurements of fair value

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

Management of the Corporation regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from these sources to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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.

The following accounting policies apply to the subsequent measurement of relevant financial assets:

(i) Financial assets at FVTPL – These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in net income and comprehensive income.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Financial assets at amortized cost – These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on derecognition are recognized in net income and comprehensive income.

21.19 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.

21.20 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.

On December 31, 2019, the Corporation fully repaid the principal and interest of the convertible debentures upon maturity.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.21 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 fair value. 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. The change in value of the exchangeable interest liability is included in net income and comprehensive income for the respective periods.

21.22 Leases

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. Accordingly, the comparative information has not been restated, and it is presented, as previously reported, under IAS 17 and related interpretations. The details of accounting policies applicable from January 1, 2019 are disclosed below.

At the inception of a contract, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease in 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.

The Facilities' lease assets include premises, medical equipment and office equipment. 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 or short term (such as certain office equipment). The Corporation recognizes the payments associated with these leases as an expense on a straight-line basis over the lease term.

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, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Corporation by the end of the lease term or the cost of the right-of-use asset reflects that the Corporation will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, 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 Corporation determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment 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.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statement of income and other comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

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.

21.23 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

A small amount of revenue is received directly from self-paying patients while the majority of revenue is received from third-party payors that provide insurance and coverage to patients. Where collection is not probable for self-paying patients, a bad debt expense is recorded against revenues. Each Facility has agreements with third-party payors that provide for payments at amounts different from the Facility's established rates. Payment arrangements include pre-determined rates per diagnosis, reimbursed costs, discounted charges, and per diem payments. As a result of established agreements with third-party payors, settlements under reimbursement arrangements are determined with a high degree of accuracy and are accrued on an estimated basis in the period the services are rendered, and are adjusted in future periods, as final settlements are determined. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the period of settlement. Up to the sales of its assets, revenues relating to IMD's third-party business solution service were included in facility service revenue, and consist of fees for business services provided to healthcare entities, recorded as services are provided and collection is reasonably assured.

21.24 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.25 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 Options of the Corporation. The fair value of the services received in exchange for 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.

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

21.26 Significant accounting judgments and estimates

The Corporation estimates certain amounts reflected in its consolidated financial statements based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes.

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

21.26.1 Revenue

Revenue is recorded in the period when healthcare services are provided based on actual amounts received and the estimated net realizable amounts due from patients and payors. The amounts due are estimated using established billing rates less adjustments required by contractual arrangements with the payors. Estimates of contractual adjustments are based on the payment terms specified in the related contractual agreements and payment history. Payor contractual payment terms are generally based on predetermined rates per procedure or discounted fee-for-service rates. For payors for which the Facilities do not have contracts, the Facilities estimate the necessary adjustments based on a twelve-month history of reimbursements on closed cases. Revenue is only recorded where collectability is highly probable. As a result, certain amounts for self-paying patients are not recognized in revenue.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.26.2 Allowance for non-collectible receivable balances

The Facilities maintain an allowance for non-collectible receivable balances for estimated losses resulting from the inability to collect on its accounts receivable. To arrive at the allowance for non-collectible receivable balances, management uses estimates of future collections of accounts receivable that differ from the original estimates used at the time of revenue recognition. The allowance for non-collectible receivable balances is subject to change as general economic, industry and customer specific conditions change.

21.26.3 Impairment of non-financial assets

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

The methodology used to test for impairment includes significant judgment, estimates, and assumptions. Impairment exists when the carrying amount of an asset or CGU exceeds its recoverable amount, which is calculated based on two approaches: 1) the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, and 2) the trailing twelve months and estimated future EBITDA multiplied by a market multiple relevant to the CGU. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses, cash flows, discount rates, and market multiples at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature, impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and indefinite life intangible assets are tested for impairment.

Management has identified seven CGUs for which impairment testing is performed. The UMASH/RRIMH CGU contains the assets of two separate subsidiaries of the Corporation, because the assets of RRIMH consist of the land and building of UMASH's primary facility, making the two entities interdependent. The MFC Nueterra ASCs, which are managed as a network, collectively represent another CGU. The remaining Facilities represent subsidiary operations which are independent of each other, and are therefore identified as separate CGUs. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Factors considered by management in determining a triggering event include: deterioration in market and economic conditions, volatility in the financial markets causing declines in the Corporation's share price, increases in the Corporation's weighted-average cost of capital, changes in valuation multiples, changes to healthcare legislation in the United States both federally and in the jurisdictions in which the Facilities operate, changes to the physician complement at the Facilities, decreases in expected future reimbursement rates, declining patient referrals, physical conditions of facilities and equipment, and increased costs of inputs, such as drugs, supplies, and labour.

When considered significant, management incorporates changes to these factors in its estimated future cash flows to assess the impact on the recoverable value of its non-financial assets.

Management calculates the recoverable amount of each CGU using EBITDA specific to each CGU by a multiple determined using market data, such as EBITDA to market capitalization ratios of comparable publicly traded companies and recent prices for capital transactions within the industry. Management has estimated cost to dispose to be 1% of the fair value of the CGUs, based on recent market data. To assess 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, (ii) the fair value of convertible debentures outstanding for December 31, 2018, and (iii) the Corporation's portion of the Facilities' long-term debt, less (iv) cash on hand.

Management performed an assessment of impairment indicators mentioned above as at December 31, 2019 and determined that there has been no further impairment of non-financial assets, including goodwill and other intangibles. As at September 30, 2019, management recorded an impairment charge of $22,000 for the MFC Nueterra ASCs CGU. As at June 30, 2019, management recorded an impairment charge of $29,500 for the UMASH/RRIMH CGU.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.26.4 Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of deferred taxable income. The Corporation's income tax assets and liabilities are based on interpretations of income tax legislation across various jurisdictions in Canada and the United States. The Corporation's effective tax rate can change from year to year based on the mix of income among different jurisdictions, changes in tax laws in these jurisdictions, and changes in the estimated value of deferred tax assets and liabilities. The Corporation's income tax expense reflects an estimate of the cash taxes the Corporation is expected to pay for the current year and a provision for changes arising in the values of deferred tax assets and liabilities during the year. The carrying value of these assets and liabilities is impacted by factors such as accounting estimates inherent in these balances, management's expectations about future operating results, and previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authorities. Such differences in interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective legal entity's domicile. On a regular basis, management assesses the likelihood of recovering value from deferred tax assets, such as loss carry forwards, as well as from the depreciation of capital assets, and adjusts the tax provision accordingly.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be used. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax-planning strategies. If management's estimates or assumptions change from those used in current valuation, management may be required to recognize an adjustment in future periods that would increase or decrease deferred income tax asset or liability and increase or decrease income tax expense.

21.26.5 Business combinations

Upon completion of business acquisitions, management uses judgment in identifying tangible and intangible assets and liabilities of acquired businesses, as well as determining their fair values. The Corporation applies the acquisition method to account for business combinations. The consideration transferred for the acquisition is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Corporation. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Corporation recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the fair value of identifiable assets of the acquiree.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.27 New and revised IFRS adopted

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

21.27.1 IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding right-of-use asset on the 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. Accordingly, the comparative information presented for 2018 has not been restated, and it is presented, as previously reported, under 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 into or changed on or after January 1, 2019.

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 liabilities, adjusted by the amount of any deferred rent payments.

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

21. 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.

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 year ended December 31, 2019, the Corporation recognized $7,310 of incremental depreciation expense and $3,235 of incremental interest expense, while general and administrative expenses were lower by $10,940 as the Corporation no longer records lease expenses in general and administrative expenses.

21.27.2 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 material impacts on the consolidated financial statements.

21.28 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.