Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

December 31, 2021 and 2020
(In U.S. dollars)

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Management's Responsibility for Financial Reporting

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

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

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

"Robert O. Horrar" *"David N.T. Watson"*

Robert O. Horrar
Chief Executive Officer

David N.T. Watson
Chief Financial Officer

Toronto, Canada
March 9, 2022

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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, 2021 and December 31, 2020;
- 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, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of impairment of goodwill and other intangibles with indefinite lives

Description of the matter

We draw attention to Notes 7, 21.15 and 21.26.4 to the financial statements. Goodwill and other intangibles with indefinite lives are tested at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Entity has recorded goodwill and other intangibles with indefinite lives of $135,983 and $9,669, respectively. For the purposes of assessing impairment, assets are grouped at the cash generating until ("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 five MFC Nueterra ASCs which collectively constitute a single CGU. An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its value-in-use and fair value less costs of disposal. The Entity has performed its annual impairment test using fair value less costs of disposal, which is based on the following significant estimate:

- Market multiple relevant to each CGU for fair value less costs of disposal.

Why the matter is a key audit matter

We identified the evaluation of impairment of goodwill and other intangibles with indefinite lives as a key audit matter. This matter represented an area of significant risk of material misstatement due to the magnitude of the balance and the high degree of estimation uncertainty in determining the recoverable amount. Significant auditor judgement and the involvement of professionals with specialized skills and knowledge was required to evaluate the evidence relating to the Entity's significant assumptions due to the sensitivity of the recoverable amount to minor changes in significant assumptions.

How the matter was addressed in the audit

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Comparing the Entity's market multiple assumptions to market multiples publicly available for comparable entities.

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 "2021 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 "2021 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 as issued by the IASB, 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Kunal Verma.

Toronto, Canada

March 9, 2022

MEDICAL FACILITIES CORPORATION

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

	Note	December 31, 2021 $	December 31, 2020 $
ASSETS			
Current assets			
Cash and cash equivalents		61,044	66,182
Accounts receivable	12.4.2	61,444	60,212
Supply inventory	21.10	10,649	9,329
Prepaid expenses and other		9,749	6,856
Income tax receivable		6,008	4,023
Total current assets		**148,894**	**146,602**
Non-current assets			
Loan receivable	5.4, 17.1	13,384	13,384
Deferred income tax assets	15	386	310
Property and equipment	6	77,203	78,226
Right-of-use assets	18.1	55,550	59,669
Goodwill	7.1	135,983	135,983
Other intangibles	7.2	14,449	21,680
Other assets	17.1	1,117	1,142
Total non-current assets		**298,072**	**310,394**
TOTAL ASSETS		**446,966**	**456,996**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		1,961	1,710
Accounts payable		23,940	24,465
Accrued liabilities		24,939	21,201
Current portion of long-term debt	8	5,295	18,964
Current portion of lease liabilities	8	9,487	9,084
Payor advances and government stimulus funds repayable	4	15,843	26,185
Total current liabilities		**81,465**	**101,609**
Non-current liabilities			
Long-term debt	8	48,275	40,713
Lease liabilities	8	51,843	55,193
Deferred income tax liability	15	14,124	12,275
Corporate credit facility	8	26,000	38,000
Exchangeable interest liability	12.1	45,578	34,039
Total non-current liabilities		**185,820**	**180,220**
Total liabilities		**267,285**	**281,829**
Equity			
Share capital	9.1	396,041	398,114
Contributed surplus	20.1	1,859	1,567
Deficit		(263,817)	(272,149)
Equity attributable to owners of the Corporation		**134,083**	**127,532**
Non-controlling interest	10	45,598	47,635
Total equity		**179,681**	**175,167**
TOTAL LIABILITIES AND EQUITY		**446,966**	**456,996**
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 $	$	$
2021							
Balance at January 1, 2021		398,114	1,567	(272,149)	127,532	47,635	175,167
Net income and comprehensive income for the period		-	-	15,500	15,500	30,993	46,493
Share-based compensation	20.1	-	292	-	292	-	292
Dividends to owners of the Corporation		-	-	(7,168)	(7,168)	-	(7,168)
Distributions to non-controlling interest	10	-	-	-	-	(32,868)	(32,868)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(162)	(162)
Purchase of common shares under the terms of a normal course issuer bid	9.3	(2,073)	-	-	(2,073)	-	(2,073)
Balance at December 31, 2021		**396,041**	**1,859**	**(263,817)**	**134,083**	**45,598**	**179,681**
2020							
Balance at January 1, 2020		398,114	1,400	(274,466)	125,048	48,296	173,344
Net income and comprehensive income for the period		-	-	8,813	8,813	26,870	35,683
Share-based compensation	20.1	-	167	-	167	-	167
Dividends to owners of the Corporation		-	-	(6,496)	(6,496)	-	(6,496)
Distributions to non-controlling interest	10	-	-	-	-	(25,561)	(25,561)
Redemption of non-controlling interest in City Place Surgery Center		-	-	-	-	(149)	(149)
Sale of controlling interest in Unity Medical and Surgical Hospital	5.1	-	-	-	-	(1,031)	(1,031)
Sale of Two Rivers Surgical Center		-	-	-	-	(790)	(790)
Balance at December 31, 2020		**398,114**	**1,567**	**(272,149)**	**127,532**	**47,635**	**175,167**

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

MEDICAL FACILITIES CORPORATION

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

	Note	Year Ended December 31, 2021 $	2020 $
Revenue and other income			
Facility service revenue		398,633	363,854
Government stimulus income	4	13,099	26,008
		411,732	**389,862**
Operating expenses			
Salaries and benefits		119,901	114,535
Drugs and supplies		130,027	120,916
General and administrative expenses		57,677	58,729
Depreciation of property and equipment	6	9,366	9,801
Depreciation of right-of-use assets	18.1	10,172	10,122
Amortization of other intangibles	7.2	7,231	7,965
		334,374	**322,068**
Income from operations		**77,358**	**67,794**
Finance costs			
Change in value of exchangeable interest liability	12.1	11,539	12,033
Interest expense on exchangeable interest liability	12.1	8,707	6,716
Interest expense, net of interest income	16	6,064	6,058
Impairment gain on loan receivable	5.4	-	(681)
Loss on foreign currency		34	51
		26,344	**24,177**
Share of equity loss in associates	17.1	125	1,837
Income before income taxes		**50,889**	**41,780**
Income tax expense	15	4,396	4,358
Net income for the period from continuing operations		**46,493**	**37,422**
Discontinued operations			
Net loss for the period from discontinued operations, net of tax	5.2	-	(1,739)
Net income and comprehensive income for the period		**46,493**	**35,683**
Attributable to:			
Owners of the Corporation		15,500	8,813
Non-controlling interest	10	30,993	26,870
		46,493	**35,683**
Earnings per share attributable to owners of the Corporation			
From continuing and discontinued operations			
Basic	9.2	$ 0.50	$ 0.28
Fully diluted	9.2	$ 0.50	$ 0.28
From continuing operations			
Basic	9.2	$ 0.50	$ 0.31
Fully diluted	9.2	$ 0.50	$ 0.31

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, 2021 $	2020 (As adjusted – note 4) $
Cash flows from operating activities			
Net income for the period		46,493	35,683
Adjustments for:			
Depreciation of property and equipment	6	9,366	9,801
Depreciation of right-of-use assets	18.1	10,172	10,122
Amortization of other intangibles	7.2	7,231	7,965
Impairment gain on loan receivable	5.4	-	(681)
Share of equity loss in associates	17.1	125	1,837
Change in value of exchangeable interest liability	12.1	11,539	12,033
Loss on foreign currency		34	51
Income tax expense		4,396	4,044
Share-based compensation	20.1	292	167
Interest expense, net of interest income		14,771	14,076
Gain on sale of Two Rivers Surgical Center		-	(209)
Other non-cash loss (gain)		(1,903)	863
		102,516	95,752
Net changes in non-cash operating working capital	11	(10,445)	32,098
		92,071	127,850
Interest paid, net of received		(11,821)	(11,609)
Income and withholding taxes paid		(4,608)	(2,967)
Net cash provided by operating activities		**75,642**	**113,274**
Cash flows from investing activities			
Purchase of property and equipment	6	(8,421)	(7,518)
Redemption of non-controlling interest in MFC Nueterra ASCs		(162)	(149)
Investment in St. Luke's Surgery Center of Chesterfield, LLC	17.1	(105)	-
Proceeds from Unity Medical and Surgical Hospital transactions	5.1	-	25,819
Proceeds from sale of Two Rivers Surgical Center		-	950
Investment in Unity Medical and Surgical Hospital subsequent to sale		-	(793)
Net cash provided by (used in) investing activities		**(8,688)**	**18,309**
Cash flows from financing activities			
Net repayments of revolving credit facilities and issuance of notes payable	8	(8,647)	(46,745)
Repayments of notes payable by the Facilities	8	(9,460)	(6,869)
Payment of lease liabilities	8,18.3	(11,943)	(12,257)
Loan receivable from an associate	17.1	(150)	-
Distributions to non-controlling interest	10	(32,868)	(25,561)
Dividends paid		(6,917)	(5,904)
Purchase of common shares under the terms of a normal course issuer bid	9.3	(2,073)	-
Net cash used in financing activities		**(72,058)**	**(97,336)**
Increase (decrease) in cash and cash equivalents		**(5,104)**	**34,247**
Effect of exchange rate fluctuations on cash balances held		(34)	(51)
Cash and cash equivalents, beginning of the period		66,182	31,986
Cash and cash equivalents, end of the period		**61,044**	**66,182**

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 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 four specialty hospitals and six ambulatory surgery centers (the "ASCs") (collectively the "Facilities").

On December 22, 2021, the operations of an urgent care centre affiliated with Black Hills Surgical Hospital, LLP, located in Spearfish, South Dakota ("BHSH urgent care"), were shut down. As a result of its closure, BHSH urgent care's premises lease was terminated, and the Corporation recorded a pre-tax gain of $46 on termination. This gain is included in general and administrative expenses from continuing operations.

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

		Ownership Interest December 31,	
Subsidiary	**Location**	**2021**	**2020**
Arkansas Surgical Hospital, LLC ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	64.0%	64.0%
Black Hills Surgical Hospital, LLP ("BHSH")	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP ("SFSH")	Sioux Falls, South Dakota	51.0%	51.0%
The Surgery Center of Newport Coast ("SCNC")	Newport Beach, California	51.0%	51.0%
MFC Nueterra ASCs(1)	Various	46.1%	45.0%

(1) The Corporation has an average ownership interest of 46.1% based on values as at the reporting date. The five ambulatory surgery centers are situated in Michigan, Missouri, Nebraska, Ohio, 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 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 9, 2022.

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. COVID-19

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The outbreak began to impact the Corporation's and Facilities' operations in the latter half of March 2020. All Facilities were affected by the pandemic as elective cases were restricted, either voluntarily or by U.S. state or local government mandate, including the temporary closure of three of the MFC Nueterra ASCs, which reopened in May 2020. Management expects patient volumes and revenues will continue to be negatively impacted until the effects of the pandemic have fully subsided, and the economy stabilizes.

Management believes the extent of the COVID-19 pandemic's adverse impact on the Corporation's operating results and financial condition will be driven by many factors, most of which are beyond management's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of past and potential future stay-at-home policies and business closures, continued decreases in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher unemployment, incremental expenses required for supplies and personal protective equipment, changes in professional and general liability exposure, the efficacy of the COVID-19 vaccines against the virus and its variants, and the overall vaccine acceptance rate. Because of these and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on the business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including management's assessment of future compliance with financial covenants, estimated implicit price concessions related to uninsured patient accounts, professional and general liability reserves, and potential impairments of goodwill and long-lived assets.

The *Coronavirus Aid, Relief, and Economic Security (CARES) Act* (the "CARES Act") was signed into law on March 27, 2020. The CARES Act includes provisions for financial assistance to hospitals, surgery centers and health care providers via, among other provisions, the Public Health and Social Services Emergency Fund ("PHSSEF"), the Paycheck Protection Program ("PPP"), the Employee Retention Credit ("ERC"), and expansion of an existing Centers for Medicare and Medicaid Services accelerated payment program.

The PHSSEF is administered by the Department of Health and Human Services ("HHS") to provide eligible healthcare providers with relief funds to cover non-reimbursable expenses, including lost revenue, attributable to COVID-19. Funds not utilized for eligible expenses and not applied to lost revenues must be returned. The recognition of amounts received is conditioned upon receipt of the funds, the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, and certification that the payment will be used to prevent, prepare for and respond to COVID-19. For the year ended December 31, 2021, the Facilities have received $7,198 in total funding from the HHS (December 31, 2020: $14,452), and recognized $9,724 in revenue as government stimulus income (December 31, 2020: $11,514). An amount of $502 may be repayable, and was recorded as a liability as of December 31, 2021 (December 31, 2020: $3,028).

4. COVID-19 (Continued)

The PPP expands the guaranteed lending program under Section 7(a) of the *Small Business Act* administered by the US Small Business Administration. The loan amounts received are eligible for forgiveness to the extent they are used for certain qualifying expenses and to maintain payroll levels and related expenses during the 8 to 24-week period following loan origination. For the year ended December 31, 2021, certain Facilities have received $1,479 in forgivable loans under the PPP (December 31, 2020: $12,226), and recognized all of it in revenue as government stimulus income (December 31, 2020: $12,226). Loans received under the PPP of $1,655 during the year ended December 31, 2020 have been forgiven in full by the SBA, while the remaining loans of $10,571 are pending additional review. For the loans received under the PPP for the year ended December 31, 2021, income has been recognized during the period based on reasonable assurance that the Facilities have met the requirements for forgiveness. However, there is some uncertainty over the final outcome as applications for forgiveness of the PPP loans must still be formally approved subsequent to December 31, 2021.

Under the expansion of the Medicare Accelerated and Advance Payment Program most providers and suppliers could request an advance of three to six months of Medicare payments. Certain Facilities received net advances of $23,157 for the year ended December 31, 2020. Repayment of these accelerated/advance payments commences one year after issuance, upon which payments will be recouped against Medicare claims at a rate of 25% for eleven months, followed by a rate of 50% for the succeeding six months, after which any remaining balance will need to be repaid in full within one month. The initial 11-month recoupment period began in April 2021, such that $7,947 has been recouped as at December 31, 2021. The remaining $15,210 is recorded as a liability under payor advances and government stimulus funds repayable as at December 31, 2021.

For the comparative period in the consolidated statements of cash flows, management has reclassified the cash flows from payor advances and government stimulus funds repayable from financing activities to operating activities, and included these in the net changes in non-cash working capital (note 11), as these are a result of the Corporation's operational activities. For the year ended December 31, 2020, net cash provided by operating activities of $87,089 (as reported) has been adjusted to $113,274 (as adjusted), and net cash used in financing activities of $71,151 (as reported) has been adjusted to $97,336 (as adjusted).

The ERC is a refundable tax credit against certain employment taxes that can be claimed by eligible employers, whose business has been financially impacted by COVID-19, in their quarterly employment tax returns. For the year ended December 31, 2021, certain Facilities have had claims approved under the ERC and recorded government stimulus income of $192 (December 31, 2020: $360). Certain Facilities have also submitted additional claims under the ERC which are pending approval.

In addition to the CARES Act, the *Families First Coronavirus Response Act* ("FFCRA") was signed into law on March 18, 2020. This program mandates COVID-19 related family medical and paid sick leaves for employees and provides tax credits to reimburse employers for both sick leave and family medical leave. For the year ended December 31, 2021, certain Facilities have qualified for the tax credits under the FFCRA and recorded government stimulus income of $52 (December 31, 2020: $928).

4. COVID-19 (Continued)

For the year ended December 31, 2021, certain Facilities have also received other stimulus funds under state programs of $1,783 (December 31, 2020: $980), and recognized $1,652 in revenue as government stimulus income (December 31, 2020: $980). The remaining amount of $131 is recorded as a liability as at December 31, 2021, and is expected to be recognized as income in future quarters.

The ability to qualify for government stimulus funds under the various programs, and the timing of receipts and recognition of income may differ between individual Facilities.

Government stimulus income from continuing operations included in the consolidated statements of income and comprehensive income consists of the following:

	Year Ended December 31,	
	2021 $	2020 $
HHS	9,724	11,514
PPP	1,479	12,226
ERC	192	360
FFCRA	52	928
Other	1,652	980
Government stimulus income	**13,099**	**26,008**

On December 27, 2020, the *Consolidated Appropriations Act, 2021* (the “CA Act”) was signed into law, introducing a $900 billion stimulus relief package aimed to respond to the economic fallout caused by the COVID-19 pandemic. Among other provisions, the CA Act enhanced and expanded certain provisions of the previous relief package, the CARES Act. This included an additional $284.5 billion in funding for first and second rounds of more easily forgivable PPP loans, and an extension and expansion of the ERC. The Facilities may be eligible for further funding under the CA Act.

On March 11, 2021, the American Rescue Plan Act, 2021 (the “ARP Act”) was signed into law, which is a $1.9 trillion economic stimulus package intended to facilitate recovery in the United States from the economic and health effects of COVID-19. Among its provisions, the ARP Act includes $7.25 billion in appropriations to the SBA for the PPP, and a further extension of the ERC. The Facilities may be eligible for further funding under the ARP Act.

There is uncertainty regarding the implementation, duration and impact of the CARES Act, the CA Act, the ARP act, and other existing or future stimulus legislation, if any. There can be no assurance as to the total amount of financial assistance or types of assistance the Facilities will receive, that the Facilities will be able to comply with the applicable terms and conditions to retain such assistance, that the Facilities will be able to benefit from provisions intended to increase access to resources and ease regulatory burdens for health care providers or that additional stimulus legislation will be enacted. Any loans not forgiven will result in a reversal of income previously recorded and a recording of a liability.

5. DISCONTINUED OPERATIONS

5.1 Sale of UMASH

On February 24, 2020, the Corporation sold the majority of its interest (decreasing to 31.7% from 87.6%) in Unity Medical and Surgical Hospital ("UMASH"). As of the date of the transaction, the Corporation no longer consolidates the financial results of UMASH and accounts for its interest under the equity method of accounting. On June 30, 2020, the Corporation sold the real estate assets underlying UMASH. In connection with the sale of controlling interest in UMASH, the Corporation recorded an impairment gain of $681 on the loan receivable from UMASH ("loan receivable") during the year ended December 31, 2020.

The net assets sold were as follows:

	2020
	$
Cash and cash equivalents	643
Accounts receivable	3,252
Supply inventory	648
Prepaid expenses and other	1,772
Deferred income tax assets	5,272
Property and equipment	26,434
Right-of-use assets	563
Other intangibles	5,776
Total assets	**44,360**
Accounts payable	1,965
Accrued liabilities	2,293
Lease liabilities	1,445
Total liabilities	**5,703**
Net assets sold	**38,657**

The gain on sale was calculated as follows:

	2020
	$
Net cash proceeds received	25,754
Working capital adjustments	(252)
Loan receivable from UMASH	11,801
Equity investment retained in UMASH	623
Non-controlling interest of UMASH	1,031
Less: Escrow reserve	(300)
Less: Net assets sold	(38,657)
Total gain on sale of UMASH, net of tax	**-**

5. DISCONTINUED OPERATIONS (Continued)

5.2 Results of discontinued operations

	Year Ended December 31,	
	2021	2020
	$	$
Facility service revenue	**-**	**3,663**
Operating expenses		
Salaries and benefits	-	1,707
Drugs and supplies	-	1,115
General and administrative expenses	-	1,592
	-	**4,414**
Loss from operations	**-**	**(751)**
Interest expense, net of interest income	-	1,302
Loss before income taxes	**-**	**(2,053)**
Income tax recovery	-	(314)
Net loss for the period from discontinued operations, net of tax	**-**	**(1,739)**

5.3 Cash flows from discontinued operations

	Year Ended December 31,	
	2021	2020
	$	$
Net cash provided by operating activities	-	334
Net cash provided by investing activities	-	386
Net cash used in financing activities	-	(338)
Net cash flow for the period	**-**	**382**

5.4 Loan receivable from UMASH

	$
Loan receivable from UMASH at February 24, 2020	11,801
Interest income	902
Impairment gain on loan receivable	681
Loan receivable from UMASH at December 31, 2020	13,384
Loan receivable from UMASH at December 31, 2021	**13,384**

6. PROPERTY AND EQUIPMENT

	Land and Improvements	Construction in Progress	Building and Improvements	Equipment and Furniture	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2020	6,254	2,904	84,730	64,280	158,168
Additions	-	2,464	918	4,136	7,518
Transfers	-	(5,010)	4,266	744	-
Disposals	-	-	(101)	(713)	(814)
Disposal of Two Rivers Surgical Center	-	-	(122)	(1,818)	(1,940)
Impairment loss on ASH urgent care shutdown	-	-	(551)	-	(551)
Balance at December 31, 2020	6,254	358	89,140	66,629	162,381
Additions	-	3,693	166	4,562	8,421
Transfers	-	(3,397)	2,545	852	-
Disposals	(53)	-	-	(1,011)	(1,064)
Balance at December 31, 2021	**6,201**	**654**	**91,851**	**71,032**	**169,738**
Accumulated depreciation					
Balance at January 1, 2020	(174)	-	(37,506)	(39,178)	(76,858)
Charged for the year	(16)	-	(3,879)	(5,906)	(9,801)
Disposals	-	-	101	635	736
Disposal of Two Rivers Surgical Center	-	-	17	1,617	1,634
Impairment loss on ASH urgent care shutdown	-	-	134	-	134
Balance at December 31, 2020	(190)	-	(41,133)	(42,832)	(84,155)
Charged for the year	(15)	-	(4,983)	(4,368)	(9,366)
Disposals	-	-	-	986	986
Balance at December 31, 2021	**(205)**	**-**	**(46,116)**	**(46,214)**	**(92,535)**
Carrying amounts					
At December 31, 2020	6,064	358	48,007	23,797	78,226
At December 31, 2021	**5,996**	**654**	**45,735**	**24,818**	**77,203**

7. GOODWILL AND OTHER INTANGIBLES

7.1 Goodwill

The carrying amount of goodwill as at December 31, 2021 was $135,983 (2020: $135,983).

7.2 Other intangibles

	Hospital Operating Licenses	Medical Charts and Records	Care Networks	Trade Names	Non-Compete	Total
	$	$	$	$	$	$
Cost						
Balance at January 1, 2020	2,016	7,399	195,922	11,849	2,626	219,812
Disposal of Two Rivers Surgical Center	-	-	-	(759)	(418)	(1,177)
Balance at December 31, 2020	2,016	7,399	195,922	11,090	2,208	218,635
Balance at December 31, 2021	**2,016**	**7,399**	**195,922**	**11,090**	**2,208**	**218,635**
Accumulated amortization						
Balance at January 1, 2020	(1,461)	(7,384)	(178,530)	(260)	(1,828)	(189,463)
Amortization charges	-	(15)	(7,251)	(127)	(572)	(7,965)
Disposal of Two Rivers Surgical Center	-	-	-	101	372	473
Balance at December 31, 2020	(1,461)	(7,399)	(185,781)	(286)	(2,028)	(196,955)
Amortization charges	-	-	(6,953)	(98)	(180)	(7,231)
Balance at December 31, 2021	**(1,461)**	**(7,399)**	**(192,734)**	**(384)**	**(2,208)**	**(204,186)**
Carrying amounts						
At December 31, 2020	555	-	10,141	10,804	180	21,680
At December 31, 2021	**555**	**-**	**3,188**	**10,706**	**-**	**14,449**
Amortization period (years)	5 - Indefinite Life	5-7	9-15	20 - Indefinite life	3-5	

7.3 Impairment

The Corporation performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2021 and December 31, 2020. Based on the assessments, the Corporation did not record any impairment losses for the years ended December 31, 2021 and December 31, 2020.

The Corporation identified six CGUs for which impairment testing was performed. The MFC Nueterra ASCs, which are managed as a network, collectively represent a single CGU. The remaining Facilities represent subsidiary operations which are independent of each other, and are therefore identified as separate CGUs.

7. GOODWILL AND OTHER INTANGIBLES (Continued)

For the year ended December 31, 2021, management calculated the recoverable amount of all CGUs by determining the fair value less costs of disposal ("FVLCD"). The FVLCD is determined by multiplying the earnings before interest, taxes, depreciation and amortization for the trailing twelve months ("TTM EBITDA") by a market multiple relevant to the CGU. The inputs used in the calculation of FVLCD are Level 3 inputs under IFRS 13, *Fair Value Measurement* ("IFRS 13"). Management has estimated costs of disposal to be 1% (2020: 1%) of the fair value of the CGUs, based on recent market data. The enterprise value to TTM EBITDA multiples of 8.6 to 9.7 (2020: 8.5 to 9.6) were estimated based upon a review of public company transaction multiples, non-public transaction multiples provided by a third-party consultant, and guideline public company multiples.

For the year ended December 31, 2020, 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 FVLCD. The VIU of the MFC Nueterra ASCs CGU was determined based on an income approach 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 2021 to fiscal 2025 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 13.4% to positive 7.0% 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 was 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.

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, and (ii) the Corporation's portion of the Facilities' long-term debt and lease liabilities, less (iii) cash on hand.

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

	Year Ended December 31,	
	2021	**2020**
	$	**$**
ASH	17,911	17,911
OSH	17,436	17,436
BHSH	31,244	31,244
SFSH	60,896	60,896
SCNC	2,265	2,265
MFC Nueterra ASCs	15,900	15,900
	145,652	**145,652**

8. LONG-TERM DEBT AND LEASE LIABILITIES

			2021		2020	
	Maturity	Authorized	Balance	Effective Interest Rate	Balance	Effective Interest Rate
		$	$	%	$	%
Revolving credit facilities						
ASH	Oct 20, 2022	4,000	526	3.0	999	3.0
ASH	Jan 7, 2027	3,400	3,293	3.3	-	-
OSH	Jul 8, 2023	6,350	3,350	LIBOR+2.2	3,350	LIBOR+2.2
BHSH	Jul 31, 2023	6,000	-	LIBOR+1.3	-	LIBOR+1.3
SFSH	Oct 1, 2022	10,000	-	BSBY+1.0	1,464	LIBOR+1.0
SCNC	Jul 31, 2022	2,500	-	BSBY+3.3	-	LIBOR+3.3
MFC Nueterra ASCs	Sep 2, 2022	500	-	4.3	62	5.3
		32,750	**7,169**		**5,875**	
Corporate credit facility						
Corporate	Aug 31, 2023	**150,000**	**26,000**	LIBOR+1.5	**38,000**	LIBOR+1.8
Notes payable						
ASH	Aug 10, 2021		-	-	323	5.8
ASH	Jul 20, 2023		279	5.0	454	5.0
ASH	Aug 27, 2026		1,497	4.7	1,777	4.7
OSH	Nov 25, 2025		1,447	3.6	1,581	5.1
BHSH	Dec 28, 2021		-	-	256	3.7
BHSH	Aug 1, 2023		1,791	3.8	1,924	3.8
BHSH	Aug 1, 2023		219	3.8	349	3.8
BHSH	Mar 19, 2024		112	3.8	163	3.8
BHSH	Oct 31, 2024		1,949	3.1	2,596	3.1
BHSH	Nov 15, 2025		4,978	1.8	5,197	1.8
BHSH	Nov 15, 2025		2,813	1.7	2,990	1.7
BHSH	Jun 1, 2026		3,440	2.3	3,728	3.0
BHSH	May 10, 2027		1,079	4.0	1,253	4.0
SFSH	Oct 1, 2021		-	-	2,741	0.4
SFSH	Nov 15, 2021		-	-	100	2.9
SFSH	Dec 15, 2021		-	-	201	2.3
SFSH	Mar 17, 2022		102	3.2	511	3.2
SFSH	Jan 1, 2024		447	4.3	647	4.3
SFSH	Apr 1, 2024		228	4.0	320	4.0
SFSH	Jun 1, 2025		637	2.2	810	2.2
SFSH	Feb 1, 2026		420	2.1	-	-
SFSH	Jun 1, 2026		505	2.4	881	2.4
SFSH	Dec 31, 2028		22,711	4.7	23,555	4.7
SFSH	Jul 1, 2029		876	4.8	969	4.8
SCNC	Aug 5, 2023		206	4.2	324	4.2
MFC Nueterra ASCs	Nov 30, 2022		12	3.5	24	3.5
MFC Nueterra ASCs	Nov 10, 2025		338	4.0	38	6.5
MFC Nueterra ASCs	Mar 4, 2026		105	4.6	-	-
MFC Nueterra ASCs	Oct 1, 2028		210	4.0	90	4.0
			46,401		**53,802**	
Total long-term debt			**79,570**		**97,677**	
Less current portion			(5,295)		(18,964)	
			74,275		**78,713**	

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

		2021		2020	
	Maturity	**Balance**	**Effective Interest Rate**	**Balance**	**Effective Interest Rate**
		$	**%**	**$**	**%**
Lease liabilities					
ASH	2022 - 2030	35,292	2.1 - 5.6	38,067	2.3 - 5.6
OSH	2022 - 2026	7,927	1.8 - 5.2	10,565	3.7 - 5.2
BHSH	2022 - 2028	3,868	3.0 - 5.4	1,197	3.7 - 5.4
SFSH	2022 - 2032	7,677	1.8 - 5.5	6,394	2.1 - 5.5
SCNC	2022 - 2023	631	2.0 - 5.0	806	2.0 - 5.0
MFC Nueterra ASCs	2022 - 2028	5,705	2.4 - 5.4	6,838	2.4 - 5.4
Corporate	2022 - 2025	230	3.4 - 5.3	410	3.4 - 5.3
Total lease liabilities		**61,330**		**64,277**	
Less current portion		(9,487)		(9,084)	
		51,843		**55,193**	

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, 2021, the Facilities were in compliance with their covenants.

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

	$
2022	14,782
2023	44,329
2024	12,113
2025	15,497
2026 and thereafter	54,179
Future maturities of long-term debt and lease liabilities	**140,900**

8. 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, 2020		151,385	67,381
Changes from financing activities:			
Net repayments from revolving credit facilities and issuance of notes payable		(46,745)	-
Repayments of notes payable by the Facilities		(6,869)	-
Payment of lease liabilities		-	(12,257)
Other changes:			
New lease agreements		-	7,988
Termination of lease agreements		-	(1,841)
Interest expense		-	3,368
Sale of Two Rivers Surgical Center		(94)	(362)
Balance as at December 31, 2020		**97,677**	**64,277**
Changes from financing activities:			
Net repayments of revolving credit facilities and issuance of notes payable		(8,647)	-
Repayments of notes payable by the Facilities		(9,460)	-
Payment of lease liabilities		-	(11,943)
Other changes:			
New lease agreements		-	7,287
Termination of lease agreements		-	(456)
Interest expense		-	2,949
Termination upon shutdown of BHSH urgent care	1	-	(784)
Balance as at December 31, 2021		**79,570**	**61,330**

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 2021 and 2020:

	Note	Number of Common Shares	$
Balance at January 1, 2020		31,106,259	398,114
Balance at December 31, 2020		31,106,259	398,114
Common shares purchased and cancelled under the terms of a normal course issuer bid	9.3	(310,000)	(2,073)
Balance at December 31, 2021		**30,796,259**	**396,041**

9. SHARE CAPITAL (Continued)

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,					
		2021			2020		
		Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	$	15,500	-	15,500	9,591	(778)	8,813
Divided by weighted average number of common shares outstanding for the period		31,092,887	31,092,887	31,092,887	31,106,259	31,106,259	31,106,259
Basic earnings (loss) per share	**$**	**0.50**	**-**	**0.50**	**0.31**	**(0.03)**	**0.28**

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

		Year Ended December 31,					
		2021			2020		
		Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	$	15,500	-	15,500	9,591	(778)	8,813
Change in value of exchangeable interest liability (tax effected)		-	-	-	-	-	-
Interest expense on exchangeable interest liability		-	-	-	-	-	-
Modified net income (loss) for the period attributable to owners of the Corporation	$	15,500	-	15,500	9,591	(778)	8,813
Weighted average number of common shares:							
Outstanding for the period		31,092,887	31,092,887	31,092,887	31,106,259	31,106,259	31,106,259
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		-	-	-	-	-	-
Deemed to be issued as share-based compensation		33,893	33,893	33,893	-	-	-
Weighted average number of common shares [1][2]		31,126,780	31,126,780	31,126,780	31,106,259	31,106,259	31,106,259
Fully diluted earnings (loss) per share	**$**	**0.50**	**-**	**0.50**	**0.31**	**(0.03)**	**0.28**

(1) For the year ended December 31, 2021, the impact of exchangeable interest liability was excluded from the dilutive weighted average number of common shares calculation because it was not applicable based on the share price prevailing at December 31, 2021.

(2) For the year ended December 31, 2020, the impact of exchangeable interest liability and share-based compensation was excluded from the dilutive weighted average number of common shares calculation because it was not applicable based on the share price prevailing at December 31, 2020.

9. SHARE CAPITAL (Continued)

9.3 Normal course issuer bids

The Corporation's normal course issuer bid for up to 1,555,312 of its common shares is in effect from December 1, 2021 to November 30, 2022. During the year ended December 31, 2021, the Corporation purchased 310,000 of its common shares for a total consideration of $2,073 from the open market. During the year ended December 31, 2020, the Corporation did not purchase any of its common shares, under a previous normal course issuer bid.

The purchases under the normal course issuer bid are recorded in share capital. All common shares acquired under the normal course issuer bid were cancelled.

10. NON-CONTROLLING INTEREST

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

December 31, 2021	ASH	OSH	BHSH	SFSH	SCNC	MFC Nueterra ASCs
	$	$	$	$	$	$
Non-controlling interest percentage	**44%**	**35%**	**35%**	**35%**	**49%**	**41-70%**
Current assets	19,646	30,432	20,783	36,002	3,976	7,375
Non-current assets	42,878	11,008	30,635	57,251	1,270	7,841
Current liabilities	14,993	16,891	10,733	11,599	1,483	2,749
Non-current liabilities	40,887	12,724	20,250	33,840	837	6,925
Equity attributable to owners of the Corporation	3,721	7,686	13,283	31,079	1,492	2,313
Non-controlling interest	2,923	4,139	7,152	16,735	1,434	3,229
Revenue and other income	71,085	78,716	98,647	128,619	9,404	25,261
Operating expenses	49,962	67,205	68,595	84,013	7,539	19,296
Net income attributable to owners of the Corporation	7,399	4,855	17,042	25,320	449	1,954
Net income attributable to non-controlling interest	5,814	2,614	9,176	13,634	431	2,296
Net income	**13,213**	**7,469**	**26,218**	**38,954**	**880**	**4,250**
Distributions to non-controlling interest	6,360	1,794	8,931	12,950	391	2,442
Cash flows from operating activities	6,353	1,156	26,710	47,905	1,586	1,769
Cash flows from investing activities	(4,425)	(216)	(1,215)	(1,221)	(150)	826
Cash flows from financing activities [(1)]	(12,924)	(5,261)	(27,711)	(43,438)	(978)	(2,222)
Net cash inflow (outflow)	**(10,996)**	**(4,321)**	**(2,216)**	**3,246**	**458**	**373**

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

10. NON-CONTROLLING INTEREST (Continued)

December 31, 2020	ASH	OSH	BHSH	SFSH	SCNC	MFC Nueterra ASCs
	$	$	$	$	$	$
Non-controlling interest percentage	**44%**	**35%**	**35%**	**35%**	**49%**	**44-71%**
Current assets	31,603	27,968	18,579	37,967	3,408	7,429
Non-current assets	43,770	14,525	29,792	57,778	1,560	4,972
Current liabilities	25,958	17,514	8,983	11,290	995	2,679
Non-current liabilities	41,620	15,496	19,653	38,596	1,129	4,052
Equity attributable to owners of the Corporation	4,365	6,164	12,828	29,808	1,451	2,058
Non-controlling interest	3,430	3,319	6,907	16,051	1,393	3,612
Revenue and other income	71,956	72,392	91,192	119,316	6,823	28,183
Operating expenses	48,302	65,016	65,483	78,525	5,295	21,709
Net income attributable to owners of the Corporation	8,998	2,022	13,983	22,571	260	1,469
Net income attributable to non-controlling interest	7,070	1,089	7,529	12,154	250	2,439
Net income	**16,068**	**3,111**	**21,512**	**34,725**	**510**	**3,908**
Distributions to non-controlling interest	6,129	432	7,161	9,502	282	2,055
Cash flows from operating activities	35,113	15,121	27,355	39,828	1,033	(13,415)
Cash flows from investing activities	(3,412)	(116)	(3,137)	(1,258)	(45)	16,825
Cash flows from financing activities [(1)]	(13,627)	(3,594)	(19,854)	(32,464)	(139)	(3,395)
Net cash inflow	**18,074**	**11,411**	**4,364**	**6,106**	**849**	**15**

[(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.

11. NET CHANGES IN NON-CASH WORKING CAPITAL

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

	Year Ended December 31,	
	2021	2020 (As adjusted – note 4)
	$	$
Accounts receivable	(1,232)	4,831
Supply inventory	659	(2,016)
Prepaid expenses and other	(2,743)	(2,230)
Accounts payable	(525)	1,483
Accrued liabilities	3,738	3,845
Payor advances and government stimulus funds repayable	(10,342)	26,185
Net changes in non-cash working capital	**(10,445)**	**32,098**

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 owners 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 to non-controlling interest holders by 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 consolidated 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 9.1.

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, 2021 and December 31, 2020 are as follows:

	December 31,	
	2021	**2020**
Number of common shares to be potentially issued for exchangeable interest liability	6,161,517	6,157,396
Fair value of the exchangeable interest liability in thousands of U.S. dollars	US$ 45,578	US$ 34,039
Fair value of the exchangeable interest liability in thousands of Canadian dollars	Cdn$ 57,610	Cdn$ 43,348

12.2 Fair values and classification of financial instruments

The gross carrying value of the loan receivable on initial recognition is revaluated and adjusted using the loss allowance reserved on the loan. The loss allowance is determined based on the lifetime expected credit loss model at each reporting date. The fair value of exchangeable interest liability is determined based on the closing trading price of common shares at each reporting date. The fair values of long-term debt 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 approximate their book values due to the short-term nature of these instruments.

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, 2021 and December 31, 2020:

	December 31, 2021 $	December 31, 2020 $
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	61,044	66,182
Amortized cost		
Accounts receivable	61,444	60,212
Loan receivable	13,384	13,384
Financial liabilities		
Fair value through profit or loss		
Exchangeable interest liability	45,578	34,039
Amortized cost		
Dividends payable	1,961	1,710
Accounts payable	23,940	24,465
Accrued liabilities	24,939	21,201
Corporate credit facility	26,000	38,000
Long-term debt	53,570	59,677

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, 2021 and December 31, 2020. They do not include fair value information for financial instruments which are short-term in nature.

	December 31, 2021			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	61,044	-	-	61,044
Loan receivable	-	-	13,384	13,384
Financial liabilities				
Exchangeable interest liability	-	45,578	-	45,578
Corporate credit facility	-	26,000	-	26,000
Long-term debt	-	53,570	-	53,570
Total	**61,044**	**125,148**	**13,384**	**199,576**

	December 31, 2020			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	66,182	-	-	66,182
Loan receivable	-	-	13,384	13,384
Financial liabilities				
Exchangeable interest liability	-	34,039	-	34,039
Corporate credit facility	-	38,000	-	38,000
Long-term debt	-	59,677	-	59,677
Total	**66,182**	**131,716**	**13,384**	**211,282**

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.3 Measurement of fair values

The following are the valuation techniques used in measuring Level 2 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 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.
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, BSBY or LIBOR rates adjusted for the Facilities' risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals and interest payments discounted to present value.

The following is the valuation technique used in measuring Level 3 fair values:

Financial Instrument	Valuation Technique
Loan receivable	*Probability-weighted discounted cash flows:* Probability-weighted scenarios of future cash flows from the loan receivable are discounted using the effective interest rate that incorporates the lifetime expected credit losses at initial recognition. The cash flow scenarios and their probabilities are determined using judgment based on factors related to UMASH, including: cash and liquidity position; historical and projected operating results and free cash flows; compliance with financial covenants as stipulated by the loan agreement; ability to make timely principal and interest payments; and ability to obtain alternative financing at maturity.

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, 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 a foreign exchange hedging policy in place and the execution of this policy is monitored by the Audit Committee of the Board of Directors. As at December 31, 2021 and 2020, no foreign exchange forward contracts existed.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The values of Canadian dollar cash and cash equivalents, interest paid and received, and exchangeable interest liability, as reported in the Corporation's consolidated 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	2021 $	2020 $
1% strengthening of the Canadian dollar	(493)	(364)
1% weakening of the Canadian dollar	493	364

12.4.2 Credit risk

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.

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The table below summarizes the percentages of facility service revenue generated from, and accounts receivable balances with, each primary third-party payor group in 2021 and 2020:

	2021		2020	
	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)	33.4	17.7	32.6	17.9
Blue Cross and Blue Shield – category (ii)	28.9	26.1	30.0	29.8
Workers' compensation – category (ii)	7.4	14.2	7.6	13.3
Other private insurance – category (iii)	23.1	29.8	22.3	23.6
Other insurance and self-pay – categories (iv) and (v)	7.2	12.2	7.5	15.4
	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, 2021 and December 31, 2020:

Accounts receivable	**2021** **$**	**2020** **$**
Neither past due nor impaired	46,622	47,232
Past due 61-90 days	4,776	5,658
Past due 91-120 days	3,276	3,286
Past due 121-150 days	2,552	2,157
Past due more than 151 days	10,418	7,843
Allowance for non-collectible receivable balances	(6,200)	(5,964)
Net accounts receivable	**61,444**	**60,212**

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 facility agreements 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, 2021 and December 31, 2020 was:

	December 31,	
	2021 $	2020 $
Credit facilities with fixed interest rates	107,732	117,756
Credit facilities with variable interest rates	33,168	44,198
Total	**140,900**	**161,954**

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 $387 (2020: $702) on credit facilities with variable interest rates.

12.4.4 Price risk

The Corporation's exchangeable interest liability is 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 are quoted in Canadian dollars.

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, 2021, are as follows:

		Future payments (including principal and interest)				
Contractual obligations	**Carrying values at December 31, 2021 $**	**Total $**	**Less than 1 year $**	**2-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	1,961	1,961	1,961	-	-	-
Accounts payable	23,940	23,940	23,940	-	-	-
Accrued liabilities	24,939	24,939	24,939	-	-	-
Payor advances and government stimulus funds repayable	15,843	15,843	15,843	-	-	-
Corporate credit facility	26,000	26,694	416	26,278	-	-
Revolving credit facilities	7,169	7,807	715	3,584	214	3,294
Notes payable	46,401	53,639	6,433	12,832	15,216	19,158
Lease liabilities	61,330	73,647	12,132	21,174	15,053	25,288
Total contractual obligations	**207,583**	**228,470**	**86,379**	**63,868**	**30,483**	**47,740**

The $150,000 corporate credit facility, which matures on August 31, 2023, had $124,000 undrawn as at December 31, 2021.

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) 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. 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.

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 year ended December 31, 2021, the Corporation returned capital to shareholders through the repurchase and cancellation of 310,000 of its common shares for $2,073 under the terms of a normal course issuer bid (note 9.3). During the year ended December 31, 2020, the Corporation did not repurchase any of its common shares.

14. EMPLOYEE FUTURE BENEFITS

The Corporation's benefit programs include qualified 401(k) retirement plans which cover all employees who meet eligibility requirements. Each participating entity makes matching contributions subject to certain limits. In 2021, contributions made by the Corporation and the Facilities to such plans were $2,265 (2020: $2,241).

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 CARES Act provides tax relief with a number of measures. It includes a temporary change to Section 172 of the *U.S. Internal Revenue Code of 1986*, as amended, (the "Code") such that net operating losses ("NOL") can be carried back five years. As a result of the change due to the CARES Act, the Corporation recorded refunds for the year ended December 31, 2020 of approximately $4,000 based on the expected application of NOL carry backs generated in the 2019 and 2020 tax years. Also, under the CARES Act, $6,599 of PPP government stimulus income is excluded from taxable income for the year ended December 31, 2020.

The anticipated NOL for 2019 and 2020 stemmed primarily from temporary changes under the CARES Act to two other provisions under the Code. The business interest deduction limit under Section 163(j) of the Code was increased from 30% to 50% of a taxpayer's adjusted taxable income for tax years beginning in 2019 and 2020. As a result, the Corporation realized additional interest expense deductions with a tax impact of approximately $7,000 for the year ended December 31, 2020. The other significant change is that the CARES Act clarifies that Qualified Improvement Property is eligible for bonus depreciation (i.e., 100% expensing) under Section 168(k) of the Code, for which the Corporation estimated tax savings of approximately $900 for the year ended December 31, 2020.

As at December 31, 2020, the tax impact of the CARES Act had been fully reflected in the consolidated financial statements of the Corporation. For tax years beginning 2021, certain reliefs provided by the CARES Act are not applicable, particularly with respect to NOL carry backs and the temporary increase of the interest deduction limit to 50%.

15. INCOME TAXES (Continued)

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	2021 $	2020 $
Current	2,623	(2,290)
Deferred	1,773	6,648
Total income tax expense from continuing operations	**4,396**	**4,358**

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:

	2021		2020	
	$	%	$	%
Net income for the year from continuing operations attributable to the owners of the Corporation	15,500		9,591	
Income tax expense from continuing operations	4,396		4,358	
Income before income taxes	19,896	100.0	13,949	100.0
Income taxes at the statutory rate in Canada	5,272	26.5	3,696	26.5
Effect of:				
Impact of differences between statutory tax rates in Canada and U.S.	(465)	(2.3)	895	6.4
Change in valuation allowance	(966)	(4.9)	7,799	55.9
Impact of UMASH sale	-	-	(5,272)	(37.8)
Impact of PPP government stimulus income deductibility	-	-	(1,584)	(11.4)
Impact of CARES Act net operating loss carryforward	-	-	(1,565)	(11.2)
Other including non-taxable and non-deductible amounts	(111)	(0.5)	24	0.2
Change in value of exchangeable interest liability	666	3.3	365	2.6
Income tax expense from continuing operations	**4,396**	**22.1**	**4,358**	**31.2**

The components of deferred income tax balances are as follows:

	2021 $	2020 $
Deferred income tax assets		
Allowance for non-collectible receivable balances	1,438	1,065
Accrued liabilities	2,476	2,408
Goodwill and other intangibles	3,955	4,667
Net operating losses and deductions carryforwards	34	2,114
Total deferred income tax assets	**7,903**	**10,254**
Deferred income tax liabilities		
Property and equipment	(3,293)	(2,723)
Prepaid expenses and other	(277)	(145)
Goodwill and other intangibles	(17,533)	(16,043)
Cumulative change in the value of exchangeable interest liability	(538)	(3,308)
Total deferred income tax liabilities	**(21,641)**	**(22,219)**
Net deferred income tax liabilities	**(13,738)**	**(11,965)**

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 consists of the following:

	2021 $	2020 $
Interest expense at Facilities' level	1,977	2,370
Interest expense at corporate level	568	1,917
Interest expense on lease liabilities	2,949	3,345
Corporate credit facility stand-by fees	646	723
Interest income at Facilities' level	(25)	(25)
Interest income at corporate level	(51)	(2,272)
Interest expense, net of interest income, from continuing operations	**6,064**	**6,058**

17. RELATED PARTY TRANSACTIONS AND BALANCES

17.1 Equity accounted investments

The following investments comprise the other assets on the consolidated balance sheets:

		December 31, 2021		December 31, 2020	
Entity	**Accounting Method**	**Ownership Interest**	**Investment Balance $**	**Ownership Interest**	**Investment Balance $**
Mountain Plains Real Estate Holdings, LLC ("MPREH")[(1)]	Equity	54.2%	776	54.2%	751
South Dakota Interventional Pain Institute, LLC	Equity	-	-	32.0%	4
Black Hills Surgical Physicians, LLC	Cost	0.4%	341	0.4%	341
St. Luke's Surgery Center of Chesterfield, LLC ("St. Luke's ASC")[(2)]	Equity	27.1%	-	28.0%	46
UMASH[(3)(4)]	Equity	31.7%	-	31.7%	-
			1,117		**1,142**

(1) The Corporation has a loan receivable of $150 from MPREH, which is recorded in Prepaid expenses and other assets as at December 31, 2021.
(2) During the year ended December 31, 2021, the Corporation invested an additional $105 in St. Luke's ASC. The investment balance was written down to nil due to the Corporation's share of losses recognized.
(3) On February 24, 2020, the Corporation sold the majority of its interest (decreasing to 31.7% from 87.6%) in UMASH. The investment balance was written down to nil due to the losses from February 25, 2020 onwards of $1,416, which represent the Corporation's share recognized for the year ended December 31, 2020.
(4) The Corporation has a loan receivable of $13,384 from UMASH as at December 31, 2021 (December 31, 2020: $13,384) (note 5.4).

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, 2021 of $4,501 (December 31, 2020: $4,501).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facility space 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 to by the related parties. For the year ended December 31, 2021, BHSH paid MPREH $180 for the use of a facility (December 31, 2020: $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, 2021 and 2020 was as follows:

	2021 $	2020 $
Salaries and other employee benefits for executive officers	4,445	3,368
Director compensation	759	702
Total key management and governance compensation	**5,204**	**4,070**

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, 401(k) matching contributions, 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.

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 corporate level.

18.1 Right-of-use assets

Right-of-use assets	Note	Premises $	Medical Equipment $	Office Equipment $	Total $
Balance at January 1, 2020		59,772	1,461	3,140	64,373
New lease agreements		6,628	1,040	-	7,668
Termination of lease agreements		(1,789)	-	(30)	(1,819)
Depreciation expense		(8,635)	(643)	(844)	(10,122)
Impairment loss on ASH urgent care shutdown		(36)	-	-	(36)
Termination upon sale of Two Rivers Surgical Center		(395)	-	-	(395)
Balance as at December 31, 2020		**55,545**	**1,858**	**2,266**	**59,669**
New lease agreements		687	6,550	-	7,237
Termination of lease agreements		(347)	-	(99)	(446)
Depreciation expense		(8,403)	(953)	(816)	(10,172)
Termination upon shutdown of BHSH urgent care	1	(738)	-	-	(738)
Ending balance at December 31, 2021		**46,744**	**7,455**	**1,351**	**55,550**

18.2 Amounts from continuing operations recognized in the consolidated statements of income and comprehensive income

	2021 $	2020 $
Interest expense on lease liabilities	2,949	3,345
Expenses relating to short-term leases	209	98
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	51	47

18.3 Amounts recognized in the consolidated statements of cash flows

	2021 $	2020 $
Payment of lease liabilities	(11,943)	(12,257)

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.

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 Facilities lease their facility space from related and non-related parties.

19.2 Contingencies

In the normal course of business, the Facilities are, from time to time, subject to allegations that may result in litigation. Certain allegations may not be covered by the Facilities' commercial and liability insurance. The Facilities evaluate such allegations by conducting investigations to determine the validity of each potential claim. Based on the advice of 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, 2021:

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$21.15	September 19, 2016
Chief Operating Officer	50,000	C$ 2.64	March 19, 2020
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	**1,944,906**		

Outstanding options (the "Options") 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, 2021, 794,906 of the Options relating to the Chief Development Officer, the Former Chief Executive Officer and the Former Chief Financial Officer are vested.

During the year ended December 31, 2021, the Corporation recognized $292 (December 31, 2020: $167) relating to the Options in salaries and benefits expense.

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:

	Q1 2020 Grant Issued	Q2 2019 Grant Issued	Q1 2018 Grant 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$0.45	C$ 1.20	C$ 1.33	C$ 1.27	C$ 1.41	C$ 2.00	C$ 1.33
Share price at grant date	C$2.64	C$12.90	C$14.03	C$16.68	C$18.19	C$21.57	C$17.01
Exercise price	C$2.64	C$12.79	C$14.03	C$16.47	C$17.98	C$21.15	C$17.24
Expected volatility (weighted average volatility)	50.70%	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	5 years
Expected dividends	10.61%	8.72%	8.02%	6.74%	6.18%	5.22%	6.61%
Risk-free rate	0.68%	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, 2021, director compensation included DSU grants of $493 (December 31, 2020: $460), while the change in market value of outstanding DSUs for the same period was an expense of $542 (December 31, 2020: $808).

The following table summarizes changes in the number of DSUs for the year ended December 31, 2021:

	2021
Opening balance of DSUs at January 1, 2021	328,378
DSUs granted on director fees	76,659
DSUs granted on dividend reinvestment	11,217
DSUs paid out	(49,448)
Total number of DSUs at December 31, 2021	**366,806**

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 RSUs vest over three years, participate in the Corporation's quarterly dividends, and settle in cash. To date, grants were made on November 21, 2016 for 14,920 RSUs, July 1, 2017 for 21,804 RSUs, and on May 10, 2018 for 17,040 RSUs. The value of the expense and liability associated with the RSUs is determined based on the Corporation's share price at the end of each reporting period. For the year ended December 31, 2021, operating expenses included an RSU expense of $24 (December 31, 2020: $67). On May 10, 2021, all outstanding RSUs vested, after which they were paid out in the same quarter.

The following table summarizes changes in the number of RSUs for the year ended December 31, 2021:

	2021
Opening balance of RSUs at January 1, 2021	21,047
RSUs granted on dividend reinvestment	406
RSUs vested and settled	(21,453)
Total number of RSUs at December 31, 2021	**-**

20.4 Performance share unit plan

Until 2020, annual grants of PSUs were awarded under the Corporation's Performance Share Unit Plan ("PSU Plan"). In March 2020, the Board amended the PSU Plan to allow grants of share units ("SUs") in the form of PSUs or deferred share units ("Executive DSUs"). Starting with the 2020 annual grant, awards under the PSU Plan are granted in the form of Executive DSUs until plan participants' minimum share ownership requirements have been met. Plan participants can elect to receive PSUs once they have achieved their minimum share ownership requirements.

Awards under the PSU Plan vest three years following their grant date and are subject to achievement of performance objectives set at the time of the grant. The PSUs are settled in cash on vesting while Executive DSUs are settled in cash upon a plan participant's separation from the Corporation. The units granted under the PSU Plan participate in the Corporation's quarterly dividend.

20.4.1 Performance share units

To date, PSU grants were 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 share price at the end of each reporting period. For the year ended December 31, 2021, operating expenses included a PSU expense of $113 (December 31, 2020: $138). As at December 31, 2021, the liability for PSUs was $190 (December 31, 2020: $238).

20. SHARE-BASED COMPENSATION (Continued)

The following table summarizes changes in the number of PSUs for the year ended December 31, 2021:

	2021
Opening balance of PSUs at January 1, 2021	75,478
PSUs granted on dividend reinvestment	1,653
PSUs vested and settled	(28,182)
PSUs forfeited	(14,089)
Total number of PSUs at December 31, 2021	**34,860**

20.4.2 Share units

To date, SU grants were made on March 31, 2020 for 346,638 Executive DSUs, and on March 31, 2021 for 175,898 Executive DSUs. The value of the expense and liability associated with the SUs is determined based on the Corporation's share price at the end of each reporting period. For the year ended December 31, 2021, operating expenses included an SU expense of $1,472 (December 31, 2020: $623). As at December 31, 2021, the liability for SUs was $2,095 (December 31, 2020: $623).

The following table summarizes changes in the number of SUs for the year ended December 31, 2021:

	2021
Opening balance of SUs at January 1, 2021	365,065
SUs granted	175,898
SUs granted on dividend reinvestment	18,041
Total number of SUs at December 31, 2021	**559,004**

21. SIGNIFICANT ACCOUNTING POLICIES

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

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 presentation currency

The Corporation translates monetary assets and liabilities denominated in Canadian dollars, principally its 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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

21.4 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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 U.S. 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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.8 Short-term and long-term investments

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

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) As described in note 21.22, amounts billed are reduced by adjustments for explicit and implicit price concessions.

(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 or net realizable value, using the first-in, first-out valuation method. For the year ended December 31, 2021, the Corporation recorded a gain of $1,979 on the exchange of implant inventory as part of a new vendor agreement.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 method 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.

21.12 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Hospital operating licenses	5 years - indefinite life
Non-compete agreements	3-5 years
Medical charts and records	5-7 years
Care networks	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.

21.15 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 five MFC Nueterra ASCs which collectively constitute a single CGU.

An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amount is calculated based on two approaches:

1) VIU approach – The estimated future cash flows are 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) FVLCD approach – The TTM EBITDA is 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 CGU, and then to reduce the carrying amount of the other assets of the respective CGU on a pro rata basis.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Financial liabilities are classified as measured at amortized cost or fair value through profit or loss (“FVTPL”). A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Other financial liabilities are measured at amortized cost using the effective interest rate method.

21.17 Impairment of non-derivative financial assets

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

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, loan receivable 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation adopts the practical expedient to determine ECL on accounts receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The Corporation determines lifetime ECL on the loan receivable, as it was designated as credit-impaired on initial recognition (a “POCI asset”). POCI assets are measured using the effective interest rate method which incorporates the lifetime ECLs on initial recognition. An impairment loss is calculated as the difference between an asset’s carrying amount and the present value of the expected future cash flows discounted at the asset’s original effective interest rate. The ECL model 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 presented under finance costs 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.

21.17.2 Equity-accounted investments

An impairment loss in respect of an equity-accounted investment 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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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.
(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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.20 Exchangeable interest liability

Exchangeable interest liability represents an estimated liability for the remaining portion of the interest in the Facilities held by the non-controlling interest which can be exchanged, subject to certain restrictions, for common shares of the Corporation. The exchangeable interest liability is measured at 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.

21.21 Leases

At the inception of a contract, the Corporation assesses whether a contract is or contains a lease. 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. 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.

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.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

21.22 Facility service revenue

Healthcare services promised in the contract with a patient represent a bundle of goods and services that are distinct and accounted for as a single performance obligation. The Facilities use a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolio consists of major payor classes for inpatient revenue and outpatient revenue.

The performance obligation is measured from admission of the patient into the Facilities to the point when the services are no longer required to be provided to that patient, which is generally the time of discharge. Revenue for performance obligations satisfied at a point in time, which generally relates to patients receiving services, is recognized when goods or services are provided and the Facilities do not believe it is required to provide additional goods or services.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Facilities determine the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions (contractual adjustments provided to third-party payors) and implicit price concessions (discounts provided to uninsured and underinsured patients in accordance with the Facility's policy). Services to the beneficiaries of government payor programs (Medicare, Medicaid, other governmental insurance programs and 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. Services to beneficiaries of private insurance companies are reimbursed based on the discounts from the rate established at the Facilities in accordance with the contracts with such companies. The Facilities determine estimates of explicit price concessions based on contractual agreements, discount policies and historical experience. The Facilities determine their estimate of implicit price concession based on historical collection experience.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretations. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusions from the related programs. There can be no assurance that regulatory authorities will not challenge the Facilities' compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims and penalties would have on the Facilities.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment arrangement with the payor, correspondence from the payor, and the Facilities' historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustments is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations.

21.23 Government stimulus income

The Facilities may receive financial grants from the government in return for past or future compliance with certain conditions relating to their operating activities. These financial grants are recorded as government stimulus income by the Corporation when there is reasonable assurance that the Facilities will comply with the relevant conditions and the financial grant is received. If these conditions are not met, grants received are recognized as a liability under payor advances and government stimulus funds repayable.

Grants are recognized in the same period as the expenses that they are intended to compensate. The Corporation recognizes government stimulus income received by the Facilities as other income in the consolidated statements of income and comprehensive income.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

21.25 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 the Options of the Corporation. The fair value of the services received in exchange for the grants of the Options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the Options granted.

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

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

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Significant management judgment is involved in application of portfolio approach to major payor classes to estimate the explicit and implicit price concessions. Estimates of explicit price concessions are based on contractual agreements, discount policies and historical experience. Estimates of implicit price concessions are based on historical collection experience.

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. Estimation of allowance for non-collectible receivable balances involves uncertainty about future collections which could differ from the original estimates. The allowance for non-collectible receivable balances is subject to change as general economic, industry and customer specific conditions change.

21.26.3 Allowance for loan receivable

At each balance sheet date, management assesses and calculates any changes in the loss allowance for the loan receivable from UMASH, which was recognized as credit-impaired on initial recognition, using the lifetime ECL model. Based on the effective interest rate that incorporated lifetime ECLs at initial recognition, management calculates the impairment loss allowance for the loan receivable at each balance sheet date, using probability-weighted scenarios of cash flows from the loan receivable. The difference between the computed loan balance net of the loss allowance and the carrying value of the loan as at the reporting date is recorded as an impairment gain or loss.

Management is required to use judgment in determining the scenarios and their probabilities, which is reassessed at each balance sheet date. Factors related to UMASH that are considered in assessing the probability-weighted scenarios include: cash and liquidity position; historical and projected operating results and free cash flows; compliance with financial covenants as stipulated by the loan agreement; ability to make timely principal and interest payments; and ability to obtain alternative financing at maturity.

21. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.26.4 Impairment of non-financial assets

In determining the recoverable amount of a CGU, various estimates are employed. The Corporation determines FVLCD by using estimates such as market multiple relevant to the CGU. The Corporation determines VIU by using estimates such as future cash flows and post-tax discount rates.

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. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

21.26.5 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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21.26.6 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.

21.27 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.