MEDICAL FACILITIES CORPORATION	**MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTHS AND YEAR ENDED DECEMBER 31, 2017**

March 21, 2018

The following Management's Discussion and Analysis ("MD&A") is intended to assist readers in understanding Medical Facilities Corporation (the "Corporation"), its business environment, strategies, performance, outlook and the risks applicable to the Corporation. It should be read in conjunction with the consolidated financial statements and accompanying notes (the "financial statements") of the Corporation for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Substantially all of the Corporation's operating cash flows are in U.S. dollars and all amounts presented in the financial statements and herein are stated in thousands of U.S. dollars, unless indicated otherwise.

Additional information about the Corporation and its annual information form are available on SEDAR at www.sedar.com.

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1. CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain information in this MD&A may constitute "forward-looking information" within the meaning of applicable securities legislation. All information contained in this MD&A, other than statements of current and historical fact, is forward-looking information. Forward-looking information includes, but is not limited to, the discussion of the Corporation's business and operating initiatives, focuses and strategies, expectations of future performance and consolidated financial results, and expectations with respect to cash flows and level of liquidity. Generally, forward-looking information can be identified by use of words such as "may", "will", "could", "should", "would", "expect", "believe", "plan", "anticipate", "intend", "forecast", "objective" and "continue" (or the negative thereof) and other similar terminology. All of the forward-looking information in this MD&A is qualified by this cautionary statement.

Forward-looking information is not, and cannot be, a guarantee of future results or events. Forward-looking information is based on, among other things, opinions, assumptions, estimates and analyses that, while considered reasonable at the date the forward-looking information is provided, inherently are subject to significant risks, uncertainties, contingencies and other factors that may cause actual results, performance or achievements, industry results or events to be materially different from those expressed or implied by the forward-looking information. The material factors or assumptions that were identified and applied in drawing conclusions or making forecasts or projections set out in the forward-looking information include, but are not limited to: the successful execution of business strategies, consistent and stable economic conditions and conditions in the financial markets, and the consistent and stable legislative environment in which the Corporation operates.

Inherent in the forward-looking information are known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements, or industry results, to differ materially from any results, performance or achievements expressed or implied by such forward-looking information. Those risks, uncertainties and other factors that could cause actual results to differ materially from the forward-looking information include, but are not limited to: ability to obtain and maintain contractual arrangements with insurers and other payors, ability to attract and retain qualified physicians, availability of qualified personnel or management, legislative and regulatory changes, capital expenditures, general state of the economy, competition in the industry, opportunity to acquire accretive businesses, integration of acquisitions, currency risk, interest rate risk, success of new service lines introductions, ability to maintain profitability and manage growth, revenue and cash flow volatility, credit risk, operating risks, performance of obligations/maintenance of client satisfaction, information technology governance and security, risk of future legal proceedings, insurance limits, income tax matters, ability to meet solvency requirements to pay dividends, leverage and restrictive covenants, unpredictability and volatility of common share price, and issuance of additional common shares diluting existing shareholders' interests, and other factors set forth under the heading "Risk Factors" in this MD&A and under the heading "Risk Factors" in the Corporation's most recently filed annual information form (which is available on SEDAR at www.sedar.com).

Given these risks, uncertainties and other factors, investors should not place undue reliance on forward-looking information as a prediction of actual results. The forward-looking information reflects management's current expectations and beliefs regarding future events and operating performance and is based on information currently available to management. Although management has attempted to identify important factors that could cause actual results to differ materially from the forward-looking information contained herein, there are other factors that could cause results not to be as anticipated, estimated or intended. The forward-looking information contained herein is current as of the date of this MD&A and, except as required under applicable law, the Corporation does not undertake the obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

2. NON-IFRS FINANCIAL MEASURES

The Corporation uses certain non-IFRS financial measures which it believes provide useful measures for evaluation and assessment of the Corporation's performance. Non-IFRS financial measures do not have any standard meaning prescribed by IFRS, are unlikely to be comparable to similar measures presented by other issuers, and should not be considered as alternatives to comparable measures determined in accordance with IFRS as indicators of the Corporation's financial performance, including its liquidity, cash flows, and profitability.

The Corporation uses the following non-IFRS financial measures which are presented in Section 7 of this MD&A under the heading "Reconciliation of Non-IFRS Financial Measures" and reconciled to the applicable IFRS measures:

- **Cash available for distribution** is a non-IFRS financial measure of cash generated from operations during a reporting period which is available for distribution to common shareholders. Cash available for distribution is derived from cash flows from operations before changes in non-cash working capital and certain non-cash adjustments, less maintenance capital expenditures, interest and principal repayments on non-revolving debt obligations, non-controlling interest in cash flows at the Facility (defined below) level. The Corporation calculates cash available for distribution in U.S. dollars and translates it into Canadian dollars using the average exchange rate applicable during the period.

- **Cash available for distribution per common share** is a non-IFRS financial measure calculated as the cash available for distribution divided by the weighted average number of common shares outstanding during the period.

- **Distributions** is a non-IFRS financial measure of cash distributed to holders of common shares, more commonly referred to as dividends.

- **Earnings before interest, taxes, depreciation and amortization** ("EBITDA") is a non-IFRS financial measure defined as income for the period from continuing operations before (i) finance costs, (ii) income taxes, (iii) depreciation of property and equipment, and (iv) amortization of other intangibles.

- **Adjusted EBITDA** is defined as EBITDA before goodwill impairment.

- **Payout ratio** is a non-IFRS financial measure calculated as total distributions per common share in Canadian dollars divided by cash available for distribution per common share in Canadian dollars.

3. BUSINESS OVERVIEW

The Corporation is a British Columbia corporation. The capital of the Corporation is in the form of publicly traded common shares and 5.9% convertible unsecured subordinated debentures ("convertible debentures"). The Corporation's current monthly dividend on its common shares is Cdn$0.09375 per share.

The Corporation's operations are based in the United States. Through its wholly-owned U.S.-based subsidiaries, Medical Facilities America, Inc. ("MFA") and Medical Facilities (USA) Holdings, Inc. ("MFH"), the Corporation owns controlling interests in, and/or controls by virtue of the power to govern, and derives substantially all of its income from, six limited liability entities (each a "Facility" and, collectively, the "Facilities"), each of which own either a specialty surgical hospital (an "SSH") or an ambulatory surgery center (an "ASC"). The SSHs are located in Arkansas, Indiana, Oklahoma, and South Dakota, and the ASC is located in California. ASCs are specialized surgical centers that only provide outpatient procedures, whereas SSHs are licensed for both inpatient and outpatient surgeries. The SSHs and ASCs provide facilities, including staffing, surgical materials and supplies, and other support necessary for scheduled surgical, pain management, imaging, and diagnostic procedures and derive their revenue primarily from the fees charged for the use of these facilities. The Facilities mainly focus on a limited number of clinical specialties such as orthopedic, neurosurgery, pain management and other non-emergency elective procedures. In addition, three of the SSHs provide urgent care services and two of the SSHs provide primary care services to their communities.

The Corporation also holds a 51% controlling interest in Integrated Medical Delivery, L.L.C. ("IMD"), a diversified healthcare service company located in Oklahoma City, Oklahoma that provides third-party business solutions to healthcare entities such as physician practices, facilities, and insurance companies.

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

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

On October 3, 2016, Sioux Falls Specialty Hospital, LLP ("SFSH"), a subsidiary of the Corporation, acquired 100% of Prairie States Surgical Center, L.L.C. ("PSSC"). PSSC was acquired for a purchase price of $20,281, consisting of $4,309 consideration in cash and $15,972 of seller financing, which is required to be paid in equal instalments over a period of five years. PSSC, located in Sioux Falls, South Dakota, is an 8,000 square foot facility with two operating rooms focused on providing facilities for orthopedic procedures, and has been integrated into the operations of SFSH. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of PSSC are included in the consolidated financial statements through the Corporation's consolidation of SFSH.

On September 23, 2016, the Corporation acquired a 62% controlling interest in Unity Medical and Surgical Hospital ("UMASH"), a medical and surgical hospital located in Mishawaka, Indiana, for a cash purchase price of $27,750, which was funded by a draw on the Corporation's credit facility. UMASH is a 49,000 square foot, 29-bed Medicare-certified facility with four surgical and two special procedure suites focused on providing facilities for orthopedic, ophthalmology, podiatry, pain management, and spine surgery procedures. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of UMASH are included in the financial statements with the non-controlling portion reflected in non-controlling interest.

On September 1, 2016, Black Hills Urgent Care, a 100% subsidiary of Black Hills Surgical Hospital, LLP ("BHSH"), a subsidiary of the Corporation, expanded its operations to a third location located in Spearfish, South Dakota, approximately 50 miles from Rapid City. Total project costs for the land and new building were $4,325. The lower level of the facility houses urgent care with seven exam rooms, a digital x-ray machine, and lab. The upper level is leased by various specialists who serve patients in the Spearfish market region, including the Northwestern Black Hills area, Eastern Wyoming and Eastern Montana. On December 23, 2016, the net assets of the Spearfish location were transferred from BHSH to a newly created entity, Mountain Plains Real Estate Holdings, LLC ("MPREH"). The Corporation has significant influence over MPREH, because of its equity position and because it has representation on its board. The Corporation uses the equity method to account for this investment which was recorded at $698 as of December 31, 2017.

On July 15, 2016, RRI Mishawaka Hospital, LP ("RRIMH") purchased the real estate assets underlying UMASH, consisting of land and building, for $27,387. RRIMH is a limited partnership in which the Corporation has an 92% interest and the remaining 8% interest in the partnership is held indirectly by Rainier Realty Investments, LP, a third party. The Corporation originally owned an 84% ownership interest in RRIMH, acquiring a further 8% interest on July 27, 2017 for $245. By virtue of the Corporation having the power to govern this entity, the Corporation consolidates the results of operations and the financial position of this partnership in its financial statements. The purchase of the real estate assets was funded solely by a loan from the Corporation. The Corporation funded the loan from its available cash and a $20,000 draw on its credit facility.

Facility service revenue ("revenue") and certain directly related expenses are subject to seasonal fluctuations due to the timing of case scheduling, which can be impacted by the vacation schedules of surgeons, as well as the extent to which patients have remaining deductibles on their insurance coverage, based on the time of year. Occupancy related expenses, certain operating expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

Revenue for any given period is dependent on the volume of the procedures performed as well as the acuity and complexity of the procedures ("case mix") and composition of payors ("payor mix"), including federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Various payors have different reimbursement rates for the same type of procedure which are generally based on either predetermined rates per procedure or discounted fee-for-service rates. Medicare and Medicaid typically have lower reimbursement rates than other payors.

Revenue is recorded in the period when healthcare services are provided based upon established billing rates less adjustments required by contractual arrangements with the payors. Estimates of contractual adjustments under payor arrangements are based upon the payment terms specified in the related contractual agreements and payment history.

The volume of procedures performed at the Facilities depends on (among other things): (i) the Facilities' ability to deliver high quality care and superior services to patients and their family members; (ii) the Facilities' success in encouraging physicians to perform procedures at the Facilities through, among other things, maintenance of an efficient work environment for physicians as well as availability of facilities; and (iii) the Facilities' establishment and maintenance of strong relationships with major third-party payors in the geographic areas served. The case mix at each Facility is a function of the clinical specialties of the physicians and medical staff and is also dependent on the equipment and infrastructure at each Facility.

Non-controlling interests in the Facilities are indirectly owned, primarily by physicians practicing at the Facilities. Upon acquisition by the Corporation of indirect controlling interests in the SSHs located in Arkansas, Oklahoma, and South Dakota, the non-controlling interest owners were granted the right to exchange up to 14% (5% in the case of ASH) of the ownership interest in their respective Facilities for common shares of the Corporation. The liability associated with this derivative instrument is recorded on the consolidated balance sheet. The non-controlling interest owners of several Facilities have exercised portions of their exchangeable interests.

Summary of Facility Information as of December 31, 2017

	Arkansas Surgical Hospital ("ASH")	**Unity Medical and Surgical Hospital ("UMASH")**	**Oklahoma Spine Hospital ("OSH")**	**Black Hills Surgical Hospital ("BHSH")**	**Sioux Falls Specialty Hospital ("SFSH")**	**The Surgery Center of Newport Coast ("SCNC")**
Location	North Little Rock Arkansas	Mishawaka Indiana	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California
Year Opened	2005	2009	1999	1997	1985	2004
Year Acquired by the Corporation	2012	2016	2005	2004	2004	2008
Ownership Interest	51.0%	62.0%	60.3%	54.2%	51.0%	51.0%
Non-controlling Interest	49.0%	38.0%	39.7%	45.8%	49.0%	49.0%
Exchangeable Interest	5.0%	-	4.7%	10.8%	14.0%	-
Size	126,000 sq ft	49,000 sq ft	61,000 sq ft	75,000 sq ft	76,000 sq ft	7,000 sq ft
Operating/Procedure Rooms	11/2	4/2	7/2	11	14	2/1
Overnight Rooms	41[(1)]	29	25	26	34	-

[(1)] *Licensed for 49 beds.*

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information from Continuing Operations

	Years Ended December 31,		
In thousands of U.S. dollars, except per share amounts and as indicated otherwise	**2017**	**2016**	**2015**
Facility service revenue	385,329	339,472	308,778
Operating expenses	326,828	271,399	234,086
Income from operations	58,501	68,073	74,692
Income for the year from continuing operations	46,579	39,688	70,179
Attributable to:			
Owners of the Corporation	20,637	9,750	37,018
Non-controlling interest (1)	25,942	29,938	33,161
Earnings per share attributable to owners of the Corporation from continuing operations			
Basic	$ 0.67	$ 0.31	$ 1.18
Fully diluted	$ 0.54	$ 0.30	$ 0.53
EBITDA (2)	86,247	90,704	98,750
Adjusted EBITDA (2)	94,647	-	-
Cash available for distribution (2)	C$ 51,710	C$ 50,655	C$ 45,853
Distributions (2)	C$ 34,881	C$ 34,929	C$ 35,186
Cash available for distribution per common share (2)	C$ 1.668	C$ 1.631	C$ 1.466
Distributions per common share (2)	C$ 1.125	C$ 1.125	C$ 1.125
Payout ratio (2)	67.5%	69.0%	76.7%

	At December 31, 2017	**At December 31, 2016**	**At December 31, 2015**
Total assets	459,588	492,461	382,952
Total long-term financial liabilities	81,265	135,946	58,194

(1) *Income from continuing operations attributable to owners of the Corporation fluctuates significantly between the periods due to variations in finance costs, primarily in the values of convertible debentures and exchangeable interest liability, and income taxes; these charges are incurred at the corporate level rather than at Facility level. On the other hand, income from continuing operations attributable to non-controlling interest represents the interest of the Facilities' non-controlling interests in the net income of the Facilities on a stand-alone basis and, therefore, does not vary as significantly between the periods.*

(2) *Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures and for reconciliations of EBITDA and adjusted EBIDA to an applicable IFRS measure, see Section 5 under "Reconciliation of income for the period from continuing operations to EBITDA".*

Selected Financial Information from Continuing Operations for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

For the year ended December 31, 2017, revenue was $385.3 million, an increase of 13.5% from $339.5 million for the same period in 2016 as UMASH generated $23.3 million and PSSC generated $5.2 million of incremental revenue, with the remainder of the growth coming from same Facility operations. EBITDA decreased by $4.5 million or 4.9% to $86.2 million or 22.4% of revenue compared to $90.7 million or 26.7% for the same period last year. Adjusted EBITDA increased by $3.9 million or 4.3% to $94.6 million or 24.6% of revenue compared to $90.7 million or 26.7% for the same period last year. Income for the year from continuing operations was $46.6 million compared to $39.7 million in 2016, with the increase mainly attributable to the decrease in the value of exchangeable interest liability (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under heading "Change in Value of Exchangeable Interest Liability"), partially offset by a charge for impairment of goodwill and higher income taxes. The Corporation generated cash available for distribution of Cdn$51.7 million, representing an increase of 2.0% from Cdn$50.7 million in the prior year. Distributions per common share remained consistent between the years at Cdn$1.125, while the payout ratio was 67.5% compared to 69.0% for the year ended December 31, 2016. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures”.

Selected Financial Information from Continuing Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

For the year ended December 31, 2016, revenue was $339.5 million, an increase of 9.9% from $308.8 million for the same period in 2015 as growth at all existing Facilities and the impact of the acquisitions during the year of UMASH, PSSC, and IMD contributed an additional $30.7 million to revenue. EBITDA decreased by $8.0 million or 8.1% to $90.7 million or 26.7% of revenue compared to $98.8 million or 32.0% for the same period last year. Income from operations decreased by 8.9% to $68.1 million, or 20.1% of revenue, compared to $74.7 million, or 24.2% of revenue, in 2015. Income for the year from continuing operations was $39.7 million compared to $70.2 million in 2015, with the decrease mainly attributable to the increase in the values of exchangeable interest liability and convertible debentures, and lower income from operations, partially offset by lower income taxes and foreign exchange losses. The Corporation generated cash available for distribution of Cdn$50.7 million, representing an increase of 10.5% from Cdn$45.9 million in the prior year. Distributions per common share remained consistent between the years at Cdn$1.125, while the payout ratio was 69.0% compared to 76.7% for the year ended December 31, 2015.

5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

Three Months Ended December 31, 2017

The following table and discussion compare operating and financial results of the Corporation from continuing operations for the three months ended December 31, 2017 to the three months ended December 31, 2016.

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2017**	**2016**	**$ Change**	**% Change**
Facility service revenue	**111,266**	**107,994**	**3,272**	**3.0%**
Operating expenses				
Salaries and benefits	29,673	27,949	1,724	6.2%
Drugs and supplies	32,587	31,619	968	3.1%
General and administrative expenses	16,927	16,162	765	4.7%
Impairment of goodwill	8,400	-	8,400	-
Depreciation of property and equipment	3,022	2,805	217	7.7%
Amortization of other intangibles	4,101	4,156	(55)	(1.3%)
	94,710	**82,691**	**12,019**	**14,5%**
Income from operations	**16,556**	**25,303**	**(8,747)**	**(34.6%)**
Finance costs				
Decrease in value of convertible debentures	(585)	(4,495)	3,910	87.0%
Decrease in value of exchangeable interest liability	(6,243)	(21,707)	15,464	71.2%
Interest expense on exchangeable interest liability	1,968	2,181	(213)	(9.8%)
Interest expense, net of interest income	1,213	1,745	(532)	(30.5%)
Loss on foreign currency	127	284	(157)	(55.3%)
	(3,520)	**(21,992)**	**18,472**	**84.0%**
Income before income taxes	**20,076**	**47,295**	**(27,219)**	**(57.6%)**
Income tax expense	2,525	8,584	(6,059)	(70.6%)
Income for the period from continuing operations	**17,551**	**38,711**	**(21,160)**	**(54.7%)**
Attributable to:				
Owners of the Corporation	10,545	28,111	(17,566)	(62.5%)
Non-controlling interest	7,006	10,600	(3,594)	(33.9%)
Basic earnings per share attributable to owners of the Corporation from continuing operations	$ 0.34	$ 0.91	($ 0.57)	(62.6%)
Fully diluted earnings per share attributable to owners of the Corporation from continuing operations	$ 0.20	$ 0.31	($ 0.11)	(35.5%)
Reconciliation of income for the period from continuing operations to EBITDA (1)				
Income for the period from continuing operations	**17,551**	**38,711**	**(21,160)**	**(54.7%)**
Income tax expense	2,525	8,584	(6,059)	(70.6%)
Finance costs	(3,520)	(21,992)	18,472	84.0%
Depreciation of property and equipment	3,022	2,805	217	7.7%
Amortization of other intangibles	4,101	4,156	(55)	(1.3%)
EBITDA (1)	**23,679**	**32,264**	**(8,585)**	**(26.6%)**
Goodwill impairment	8,400	-	8,400	-
Adjusted EBITDA (1)	**32,079**	**32,264**	**(185)**	**(0.6%)**

(1) *Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures.*

Revenue

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	2017	2016	$ Change	% Change
ASH	18,292	17,167	1,125	6.6%
UMASH	11,516	13,340	(1,824)	(13.7%)
OSH	17,954	18,488	(534)	(2.9%)
BHSH	25,222	25,222	-	-
SFSH	35,638	30,787	4,851	15.8%
SCNC	2,208	2,364	(156)	(6.6%)
RRIMH	561	550	11	2.0%
IMD	1,027	1,269	(242)	(19.1%)
Intercompany eliminations	(1,152)	(1,193)	41	(3.4%)
Facility service revenue	**111,266**	**107,994**	**3,272**	**3.0%**

For the three months ended December 31, 2017, net facility service revenue increased over 2016 by $3.3 million or 3.0%. The increase was primarily attributable to higher case volume of $4.1 million, with a net positive impact of changes in case and payor mix of $0.8 million, partially offset by revenue adjustments at UMASH for a change in assessment of collectability of $1.7 million from earlier periods of 2017.

Total surgical cases increased by 303 cases or 3.1%, with inpatient and outpatient cases going up by 1.0% and 3.6%, respectively. Pain management procedures decreased by 4.0%. Case growth over the same period last year came predominantly from Commercial Insurance (11.6%) and Medicare (8.4%) cases.

The above factors are reflected in each subsidiary's revenue as follows:

- ASH recorded an increase in revenue based mainly on case mix, with a shift in outpatient cases to higher net revenue producing procedures, complemented by higher case volumes.

- UMASH recorded a decline in revenue mainly due to a change in assessment of collectability from earlier periods of 2017 and a case mix shift attributable to lower acuity, which were partly offset by higher surgical case volume.

- OSH's revenue decreased mainly due to lower case volume from fewer pain cases.

- BHSH revenue was unchanged as higher surgical case volume was offset by lower revenue per case due to case and payor mix.

- SFSH's revenue increase was primarily due to changes in case mix, with increases in total knees and spine cases, partially offset by payor mix.

- SCNC's revenue decreased mainly due to case mix partially offset by higher case volume.

- RRIMH contributed revenue which was fully eliminated.

- IMD revenue decreased mainly due to a fee decline from client billing services.

- The intercompany revenue elimination relates primarily to IMD's service revenue from OSH and RRIMH's rental revenue from UMASH.

Operating Expenses

Consolidated operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses, goodwill impairment, depreciation of property and equipment, and amortization of other intangibles, ("operating expenses") totaled $94.7 million, an increase of $12.0 million or 14.5%. As a percentage of revenue, operating expenses increased to 85.1%, or 77.6% excluding the goodwill impairment, from 76.6% in the same period a year earlier.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2017**	**Percentage of Revenue**	**2016**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	14,320	78.3%	13,243	77.1%	1,077	8.1%
UMASH	10,818	93.9%	11,762	88.2%	(944)	(8.0%)
OSH	15,032	83.7%	14,222	76.9%	810	5.7%
BHSH	17,219	68.3%	16,806	66.6%	413	2.5%
SFSH	20,353	57.1%	18,621	60.5%	1,732	9.3%
SCNC	1,652	74.8%	1,716	72.6%	(64)	(3.7%)
RRIMH	168	29.9%	176	32.0%	(8)	(4.5%)
IMD	1,096	106.7%	1,142	90.0%	(46)	(4.0%)
Corporate and intercompany eliminations	14,052	n/a	5,003	n/a	9,049	180.9%
Operating expenses	**94,710**	**85.1%**	**82,691**	**76.6%**	**12,019**	**14.5%**

Consolidated salaries and benefits increased by $1.7 million or 6.2% primarily due to increases at the Facility level, mainly due to annual salary and wage increases ($1.1 million) and increases in staffing including contract labour ($0.7 million), partly offset by savings from urgent and primary care ($0.3 million). As a percentage of revenue, consolidated salaries and benefits increased to 26.7% from 25.9% a year earlier.

Consolidated drugs and supplies increased by $1.0 million or 3.1% primarily driven by higher case volumes ($1.4 million), partially offset by savings in supply costs ($0.3 million) and case mix ($0.2 million). As a percentage of revenue, the consolidated cost of drugs and supplies remained constant from a year earlier at 29.3%.

Consolidated general and administrative expenses ("G&A") increased by $0.8 million or 4.7%. The increase in G&A was mainly attributable to a write-off of demolished assets resulting from the transfer of the MRI at SFSH ($0.5 million), higher orthopedic service line costs at SFSH ($0.3 million), and acquisition related costs at the corporate office ($0.5 million), partly offset by savings in professional fees at the facilities ($0.4 million). As a percentage of revenue, consolidated G&A increased marginally to 15.2% from 15.0% a year earlier.

The Corporation recorded total non-cash goodwill impairment charges (the "goodwill impairment") of $8.4 million in the period, consisting of $7.0 million relating to the UMASH/RRIMH cash generating unit ("CGU") and $1.4 million relating to the IMD CGU (refer to Section 13 "Critical Accounting Judgements and Estimates" of this MD&A under the heading "Impairment of Non-Financial Assets").

Consolidated depreciation of property and equipment was higher, increasing by $0.2 million or 7.7% primarily due to acquisitions. As a percentage of revenue, consolidated depreciation of property and equipment increased to 2.7% from 2.6% a year earlier.

Consolidated amortization of other intangibles decreased by $0.1 million or 1.3% due mainly to the full amortization of certain intangible assets. As a percentage of revenue, consolidated amortization of other intangibles declined to 3.7% from 3.8% a year earlier.

Income from Operations

Consolidated income from operations for the three months ended December 31, 2017 of $16.6 million was $8.7 million or 34.6% lower than consolidated income from operations of $25.3 million, recorded a year earlier, representing 14.9% of revenue, or 22.4% excluding the goodwill impairment charge, compared to 23.4% in 2016. The decline in consolidated income from operations is mainly the result of the goodwill impairment of $8.4 million, declines at OSH, UMASH, BHSH, and IMD, and increased investment related expenses at the corporate level surpassing the higher income from SFSH and ASH.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2017**	**Percentage of Revenue**	**2016**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	3,971	21.7%	3,924	22.9%	47	1.2%
UMASH	698	6.1%	1,577	11.8%	(879)	(55.7%)
OSH	2,923	16.3%	4,266	23.1%	(1,343)	(31.5%)
BHSH	8,004	31.7%	8,416	33.4%	(412)	(4.9%)
SFSH	15,285	42.9%	12,165	39.5%	3,120	25.6%
SCNC	556	25.2%	649	27.5%	(93)	(14.3%)
RRIMH	393	70.1%	374	68.0%	19	5.1%
IMD	(69)	(6.7%)	127	10.0%	(196)	(154.3%)
Corporate	(15,205)	n/a	(6,195)	n/a	(9,010)	(145.4%)
Income from operations	**16,556**	**14.9%**	**25,303**	**23.4%**	**(8,747)**	**(34.6%)**

Finance Costs

Change in Value of Convertible Debentures

The convertible debentures are recorded as a financial liability at fair value and re-measured at each reporting date and the changes in fair value are included in net income for the respective periods. Changes in the recorded value of the convertible debentures are driven by the changes in the market price of the Corporation's convertible debentures and fluctuations in the value of the Canadian dollar against the U.S. dollar.

The following table provides a calculation of the change in fair value of convertible debentures for the reporting periods:

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2017**	**September 30, 2017** *Unaudited*	**Change**	**December 31, 2016**	**September 30, 2016** *Unaudited*	**Change**
Face value of convertible debentures outstanding	C$41,743	C$41,743	-	C$41,743	C$41,743	-
Closing price of convertible debentures outstanding	C$101.00	C$102.00	(C$1.00)	C$103.26	C$115.00	(C$11.74)
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.2573	C$1.2480	C$0.0093	C$1.3427	C$1.3117	C$0.0310
Market value of convertible debentures outstanding	**33,533**	**34,118**	**(585)**	**32,102**	**36,597**	**(4,495)**

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, and re-measured at each reporting date, and the changes in fair value are included in net income for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the (i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) changes in the market price of the Corporation's common shares, and (iii) fluctuations of the value of the Canadian dollar against the U.S. dollar.

The following table provides a calculation of the change in value of exchangeable interest liability for the reporting periods:

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2017**	**September 30, 2017** *Unaudited*	**Change**	**December 31, 2016**	**September 30, 2016** *Unaudited*	**Change**
Number of common shares to be issued for exchangeable interest liability attributable to continuing operations	5,929,304	5,871,731	57,573	5,886,925	5,908,674	(21,749)
Closing price of the Corporation's common shares	C$14.23	C$15.59	(C$1.36)	C$17.57	C$21.92	(C$4.35)
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.2573	C$1.2480	C$0.009	C$1.3427	C$1.3117	C$0.031
Exchangeable interest liability	**67,107**	**73,350**	**(6,243)**	**77,034**	**98,741**	**(21,707)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $0.2 million primarily due to the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income, was down by $0.5 million mainly due to payments made against outstanding debt at Facilities, resulting in lower interest expenses versus the prior year.

Foreign Currency

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares and convertible debentures are made in Canadian dollars. Foreign currency losses declined by $0.2 million compared to the same quarter in 2016.

Income Tax

Current and deferred tax components of the income tax expense from continuing operations for the reporting periods are as follows:

Unaudited	**Three Months Ended December 31,**			
In thousands of U.S. dollars	**2017**	**2016**	**$ Change**	**% Change**
Current income tax expense	1,162	1,000	162	16.2%
Deferred income tax expense	1,363	7,584	(6,221)	(82.0%)
Income tax expense	**2,525**	**8,584**	**(6,059)**	**(70.6%)**

The increase in current income tax expense versus last year was due mainly to higher income from facilities, along with the variance in the deductibility of interest in the period. The deferred income tax expense versus the prior year was primarily attributable to the tax effect of the change in exchangeable interest liability, inclusive of immaterial prior period adjustments to the U.S. deferred tax asset in the prior year, and an immaterial impact from the enactment of the Tax Cuts and Jobs Act ("TCJA"), based primarily on a decline in the effective federal tax rate from 34% to 21%, beginning January 1, 2018.

Income from Continuing Operations

A $21.2 million decrease in income from continuing operations was mainly attributable to the change in the value of exchangeable interest liability (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability") versus the prior year and lower income from operations due mainly to the goodwill impairment charge, offset partially by lower income taxes.

EBITDA

EBITDA of $23.7 million was down $8.6 million or 26.6% from $32.3 million recorded a year earlier, representing 21.3% of revenue compared to 29.9% a year earlier. The decrease was due to the non-cash goodwill impairment charge, and higher corporate expenses for acquisition related costs in the current year, partly offset by higher earnings from the Facilities, led by SFSH and ASH. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of income for the period from continuing operations to EBITDA".

Adjusted EBITDA

Adjusted EBITDA of $32.1 million was down $0.2 million or 0.6% from $32.3 million recorded a year earlier, representing 28.8% of revenue compared to 29.9% a year earlier.

Year Ended December 31, 2017

The following table and discussion compare operating and financial results of the Corporation from continuing operations for the year ended December 31, 2017 to the year ended December 31, 2016.

	Years Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2017**	**2016**	**$ Change**	**% Change**
Facility service revenue	**385,329**	**339,472**	**45,857**	**13.5%**
Operating expenses				
Salaries and benefits	108,449	95,774	12,675	13.2%
Drugs and supplies	114,960	99,632	15,328	15.4%
General and administrative expenses	67,273	53,362	13,911	26.1%
Impairment of goodwill	8,400	-	8,400	-
Depreciation of property and equipment	11,512	9,255	2,257	24.4%
Amortization of other intangibles	16,234	13,376	2,858	21.4%
	326,828	**271,399**	**55,429**	**20.4%**
Income from operations	**58,501**	**68,073**	**(9,572)**	**(14.1%)**
Finance costs				
Increase in value of convertible debentures	1,431	1,488	(57)	(3.8%)
Increase (decrease) in value of exchangeable interest liability	(9,927)	15,353	(25,280)	(164.7%)
Interest expense on exchangeable interest liability	8,692	8,616	76	0.9%
Interest expense, net of interest income	5,892	4,258	1,634	38.4%
Gain on foreign currency	(701)	(336)	(365)	(108.6%)
	5,387	**29,379**	**(23,992)**	**(81.7%)**
Income before income taxes	**53,114**	**38,694**	**14,420**	**37.3%**
Income tax expense (recovery)	6,535	(994)	7,529	(757.4%)
Income for the year from continuing operations	**46,579**	**39,688**	**6,891**	**17.4%**
Attributable to:				
Owners of the Corporation	20,637	9,750	10,887	111.7%
Non-controlling interest	25,942	29,938	(3,996)	(13.3%)
Basic earnings per share attributable to owners of the Corporation from continuing operations	$ 0.67	$ 0.31	$ 0.36	116.1%
Fully diluted earnings per share attributable to owners of the Corporation from continuing operations	$ 0.54	$ 0.30	$ 0.24	80.0%
Reconciliation of income for the period from continuing operations to EBITDA (1)				
Income for the year from continuing operations	**46,579**	**39,688**	**6,891**	**17.4%**
Income tax expense (recovery)	6,535	(994)	7,529	757.4%
Finance costs	5,387	29,379	(23,992)	(81.7%)
Depreciation of property and equipment	11,512	9,255	2,257	24.4%
Amortization of other intangibles	16,234	13,376	2,858	21.4%
EBITDA (1)	**86,247**	**90,704**	**(4,457)**	**(4.9%)**
Goodwill impairment	8,400	-	8,400	-
Adjusted EBITDA (1)	**94,647**	**90,704**	**3,943**	**4.3%**

(1) *Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures.*

Revenue

In thousands of U.S. dollars	Years Ended December 31, 2017	2016	$ Change	% Change
ASH	70,600	67,350	3,250	4.8%
UMASH	37,546	14,203	23,343	164.4%
OSH	64,331	63,544	787	1.2%
BHSH	88,263	85,586	2,677	3.1%
SFSH	114,143	97,562	16,581	17.0%
SCNC	8,294	8,011	283	3.5%
RRIMH	2,211	1,077	1,134	105.3%
IMD	5,024	5,708	(684)	(12.0%)
Intercompany eliminations	(5,083)	(3,569)	(1,514)	(42.4%)
Facility service revenue	**385,329**	**339,472**	**45,857**	**13.5%**

For the year ended December 31, 2017, consolidated revenue of $385.3 million increased by $45.9 million or 13.5% over 2016. Consolidated revenue growth was mainly attributable to the incremental impact of the acquisitions of UMASH and PSSC (the "2016 acquisitions") on the nine months ending September 30, 2017 ($30.4 million). The remainder of the increase came from higher surgical case volume ($9.6 million), the net impact of case mix and payor mix ($3.6 million) reflecting a 5.5% increase in the average revenue per surgical case, and higher ear, nose and throat ("ENT") and urgent care clinic revenue at BHSH ($2.2 million).

Total surgical cases increased by 2,677 cases or 8.0%, with outpatient cases up 9.0% and inpatient cases up 5.3%, while observations were up 45%. Total pain management procedures decreased by 0.9%, as the pain management procedure decline at OSH was compensated by increases in procedures at the other Facilities.

The above factors impacted each subsidiary's revenue as follows:

- ASH recorded revenue growth mainly due to case mix based on a shift in outpatient cases to higher net revenue producing procedures, along with increased surgical case volume coming from inpatient cases.
- UMASH contributed revenue to the overall increase from the date of its acquisition on September 23, 2016, based on an incremental impact for approximately the first nine months of 2017.
- OSH's revenue increased slightly due to favorable case and payor mix, partly offset by lower case volumes stemming from fewer pain cases.
- BHSH revenue increased mainly due to higher surgical cases, urgent care revenue from the new clinic, higher pain management and imaging visits, and the ENT clinic, partially offset by lower revenue per case due to payor and case mix.
- SFSH revenue increased mainly due to changes in case mix driven by higher orthopedic and spine cases, increased surgical case volume, and lower bad debt charges, partly offset by payor mix.
- SCNC's revenue increased mainly because of higher surgical case volume and payor mix, partly offset by case mix due to lower orthopedic and plastic surgery cases.

- RRIMH contributed rent revenue to the consolidated results in 2016 up to the date the Corporation acquired UMASH, after which its revenue was eliminated.

- IMD revenue decreased mainly due to a fee decline from client billing services.

- The intercompany revenue eliminations relate to IMD's service revenue from OSH and RRIMH's rental revenue from UMASH.

Operating Expenses

Operating expenses totaled $326.8 million, an increase of $55.4 million or 20.4%. As a percentage of revenue, operating expenses increased to 84.8%, or 82.6% excluding the goodwill impairment, from 79.9% in the same period a year earlier.

	Years Ended December 31,					
In thousands of U.S. dollars	**2017**	**Percentage of Revenue**	**2016**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	55,103	78.0%	52,984	78.7%	2,119	4.0%
UMASH	39,765	105.9%	12,510	88.1%	27,255	217.9%
OSH	55,016	85.5%	53,376	84.0%	1,640	3.1%
BHSH	63,577	72.0%	59,693	69.7%	3,884	6.5%
SFSH	71,878	63.0%	63,896	65.5%	7,982	12.5%
SCNC	6,307	76.0%	6,424	80.2%	(117)	(1.8%)
RRIMH	670	30.3%	324	30.1%	346	106.8%
IMD	4,658	92.7%	4,989	87.4%	(331)	(6.6%)
Corporate and intercompany eliminations	29,854	n/a	17,203	n/a	12,651	73.5%
Operating expenses	**326,828**	**84.8%**	**271,399**	**79.9%**	**55,429**	**20.4%**

Consolidated salaries and benefits increased by $12.7 million or 13.2% mainly due to increases at the Facility level ($12.3 million), while salaries and benefits at the corporate level also went up mostly due to a higher staffing complement ($0.4 million). Salaries and benefits at the Facility level increased primarily due to the incremental impact of the 2016 acquisitions ($9.8 million), and the impact of wage rate increases and higher case volumes ($4.3 million), partly offset by savings from staffing reductions at OSH ($1.2 million) and IMD ($0.3 million) and lower benefit costs ($0.6 million). As a percentage of revenue, consolidated salaries and benefits moved marginally to 28.1% from 28.2% a year earlier.

Consolidated drugs and supplies increased by $15.3 million or 15.4%, which was attributable mainly to the incremental impact of the 2016 acquisitions ($7.8 million), changes in case mix ($5.9 million), and higher case volumes ($2.2 million), offset partly by savings in supply costs ($0.7 million). As a percentage of revenue, consolidated cost of drugs and supplies increased to 29.8% from 29.3% a year earlier.

Consolidated G&A increased by $13.9 million or 26.1%. The increase in G&A was attributable to the incremental impact of the 2016 UMASH acquisition ($11.2 million), the CEO transition charge ($2.0 million), a write-off of demolished assets resulting from the transfer of the MRI at SFSH ($0.5 million) and higher orthopedic service line and accountable care organization costs at SFSH ($0.4 million), offset partly by savings in professional fees at the facilities ($0.5 million). As a percentage of revenue, consolidated G&A increased to 17.5% from 15.7% a year earlier.

The Corporation recorded total non-cash goodwill impairment charges of $8.4 million, consisting of $7.0 million relating to the UMASH/RRIMH CGU and $1.4 million relating to the IMD CGU.

Consolidated depreciation of property and equipment increased by $2.3 million or 24.4% primarily due to acquisition activity offset in part by the expiration of depreciation periods of property and equipment at some of the Facilities. As a percentage of revenue, consolidated depreciation of property and equipment increased to 3.0% from 2.7% a year earlier.

Consolidated amortization of other intangibles increased by $2.9 million or 21.4% primarily due to acquisition activity offset in part by the expiration of amortization periods for certain intangible assets. As a percentage of revenue, consolidated amortization of other intangibles increased to 4.2% from 3.9% a year earlier.

Income from Operations

Consolidated income from operations of $58.5 million, which was $9.6 million lower than consolidated income from operations recorded a year earlier, represented 15.2% of revenue, compared to 20.1% in the same period in 2016, with the decline resulting mainly from a charge for impairment of goodwill of $8,400 and the CEO transition charge of $2,000.

	Years Ended December 31,					
In thousands of U.S. dollars	**2017**	**Percentage of Revenue**	**2016**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	15,497	22.0%	14,366	21.3%	1,131	7.9%
UMASH	(2,219)	(5.9%)	1,694	11.9%	(3,913)	(231.0%)
OSH	9,315	14.5%	10,168	16.0%	(853)	(8.4%)
BHSH	24,685	28.0%	25,893	30.3%	(1,208)	(4.7%)
SFSH	42,265	37.0%	33,665	34.5%	8,600	25.5%
SCNC	1,987	24.0%	1,587	19.8%	400	25.2%
RRIMH	1,541	69.7%	753	69.9%	788	104.6%
IMD	367	7.3%	719	12.6%	(352)	(49.0%)
Corporate	(34,937)	n/a	(20,772)	n/a	(14,165)	(68.2%)
Income from operations	**58,501**	**15.2%**	**68,073**	**20.1%**	**(9,572)**	**(14.1%)**

Finance Costs

Change in Value of Convertible Debentures

The convertible debentures are recorded as a financial liability at fair value and re-measured at each reporting date and the changes in fair value are included in net income for the respective periods. Changes in the recorded value of the convertible debentures are driven by the changes in the market price of the Corporation's convertible debentures and fluctuations in the value of the Canadian dollar against the U.S. dollar.

The following table provides calculation of the change in value of convertible debentures for the reporting periods:

In thousands of U.S. dollars, except as indicated otherwise	December 31, 2017	December 31, 2016	Change	December 31, 2016	December 31, 2015	Change
Face value of convertible debentures outstanding	C$41,743	C$41,743	-	C$41,743	C$41,743	-
Closing price of convertible debentures outstanding	C$101.00	C$103.26	(C$2.26)	C$103.26	C$101.50	C$1.76
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.2573	C$1.3427	(C$0.0854)	C$1.3427	C$1.3840	(C$0.0413)
Market value of convertible debentures outstanding	**33,533**	**32,102**	**1,431**	**32,102**	**30,614**	**1,488**

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, which is re-measured at each reporting date, and the changes in fair value are included in net income for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the (i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) changes in the market price of the Corporation's common shares, and (iii) fluctuations of the value of the Canadian dollar against the U.S. dollar.

The following table provides calculation of the change in value of exchangeable interest liability for the reporting periods:

In thousands of U.S. dollars, except as indicated otherwise	December 31, 2017	December 31, 2016	Change	December 31, 2016	December 31, 2015	Change
Number of common shares to be issued for exchangeable interest liability	5,929,304	5,886,925	42,379	5,886,925	5,932,340	(45,415)
Closing price of the Corporation's common shares	C$14.23	C$17.57	(C$3.34)	C$17.57	C$14.39	C$3.18
Closing exchange rate of U.S. dollar to Canadian dollar	C$1.2573	C$1.3427	(C$0.0854)	C$1.3427	C$1.384	(C$0.041)
Exchangeable interest liability	**67,107**	**77,034**	**(9,927)**	**77,034**	**61,681**	**15,353**

Interest on Exchangeable Interest Liability

The increase of $0.1 million in interest expense on the exchangeable interest liability is primarily due to the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income, increased by $1.6 million mainly due to higher interest expense at the corporate level attributable to draws on the corporate credit facility used to finance 2016 acquisitions, and the incremental interest expense from the debt residing in the recently acquired UMASH.

Foreign Currency Gains

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares and convertible debentures are made in Canadian dollars. The increase in foreign currency gain of $0.4 million compared to 2016 is mainly attributable to the fluctuations in the value of the Canadian dollar in relation to U.S. dollar during the year ended December 31, 2017 compared to the same period in 2016.

Income Tax

Current and deferred tax components of the income tax expense (recovery) for the reporting periods are as follows:

	Years Ended December 31,			
In thousands of U.S. dollars	**2017**	**2016**	**$ Change**	**% Change**
Current income tax expense	(2,199)	675	(2,874)	(425.8%)
Deferred income tax expense (recovery)	8,734	(1,669)	10,403	623.3%
Income tax expense (recovery)	**6,535**	**(994)**	**7,529**	**757.4%**

The decrease in current income tax is primarily attributable to higher public company expense and interest deductions versus the prior year. The increase in deferred income tax expense is primarily attributable to the tax effect of the change in exchangeable interest liability and the utilization of the deferred tax asset related to the Canadian cumulative tax operating losses, accumulated immaterial prior period adjustments to the U.S. deferred tax asset in the prior year, and an immaterial impact from the enactment of the TCJA, based primarily on a decline in the effective federal tax rate from 34% to 21%, beginning January 1, 2018.

Income from Continuing Operations

A $6.9 million increase in income from continuing operations was primarily due to change in the value of exchangeable interest liability, partially offset by lower income from operations, due partly to the goodwill impairment change, higher income tax expense and interest expense net of interest income.

EBITDA

EBITDA of $86.2 million was down $4.5 million or 4.9% from $90.7 million recorded a year earlier, representing 22.4% of revenue compared to 26.7% a year earlier. The decrease was due to the non-cash goodwill impairment charge and higher corporate expenses, due substantially to the CEO transition charge in the current year, offset partially by higher earnings from the Facilities, led by SFSH and ASH. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of income for the period from continuing operations to EBITDA".

Adjusted EBITDA

Adjusted EBITDA was $94.6 million up $3.9 million or 4.3% from $90.7 million recorded a year earlier, representing 24.6% of revenue compared to 26.7% a year earlier.

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results from Continuing Operations

Unaudited	2017				2016			
In thousands of U.S. dollars, except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Facility service revenue	**111,266**	**88,974**	**96,085**	**89,004**	**107,994**	**78,806**	**76,728**	**75,945**
Operating expenses								
Salaries and benefits	29,673	26,418	26,174	26,184	27,949	22,787	22,961	22,076
Drugs and supplies	32,587	26,942	28,850	26,581	31,619	23,250	22,538	22,225
General and administrative expenses	16,927	16,266	17,944	16,136	16,162	13,147	12,305	11,748
Impairment of goodwill	8,400	-	-	-	-	-	-	-
Depreciation of property and equipment	3,022	2,816	2,868	2,806	2,805	2,253	2,048	2,150
Amortization of other intangibles	4,101	4,100	4,056	3,977	4,156	3,187	3,111	2,922
	94,710	**76,542**	**79,892**	**75,684**	**82,691**	**64,624**	**62,963**	**61,121**
Income from operations	**16,556**	**12,432**	**16,193**	**13,320**	**25,303**	**14,182**	**13,765**	**14,824**
Finance costs								
Increase (decrease) in value of convertible debentures	(585)	1,307	(618)	1,326	(4,495)	2,381	(166)	3,768
Increase (decrease) in value of exchangeable interest liability	(6,243)	8,017	(15,324)	3,623	(21,707)	10,856	15,560	10,644
Interest expense on exchangeable interest liability	1,968	2,121	2,155	2,446	2,181	1,823	2,024	2,590
Interest expense, net of interest income	1,213	1,612	1,483	1,586	1,745	1,079	696	737
Loss (gain) on foreign currency	127	(393)	(318)	(116)	284	150	12	(782)
	(3,520)	**12,664**	**(12,622)**	**8,865**	**(21,992)**	**16,289**	**18,126**	**16,957**
Income (loss) before income taxes	**20,076**	**(232)**	**28,815**	**4,455**	**47,295**	**(2,107)**	**(4,361)**	**(2,133)**
Income tax expense (recovery)	2,525	(2,397)	6,691	(284)	8,584	(1,730)	(4,986)	(2,863)
Income (loss) for the period from continuing operations	**17,551**	**2,165**	**22,124**	**4,739**	**38,711**	**(377)**	**625**	**730**
Attributable to:								
Owners of the Corporation	10,545	(3,560)	14,168	(516)	28,111	(6,836)	(5,718)	(5,805)
Non-controlling interest	7,006	5,725	7,956	5,255	10,600	6,459	6,343	6,535
Earnings (loss) per share attributable to owners of Corporation from continuing operations								
Basic	$0.34	$ (0.11)	$ 0.46	$ (0.02)	$ 0.91	$ (0.22)	$ (0.18)	$ (0.19)
Fully diluted	$0.20	$ (0.11)	$ 0.18	$ (0.02)	$ 0.31	$ (0.22)	$ (0.18)	$ (0.19)
Reconciliation of income for the period from continuing operations to EBITDA (1)								
Income (loss) for the period from continuing operations	17,551	2,165	22,124	4,739	38,711	(377)	625	730
Income tax expense (recovery)	2,525	(2,397)	6,691	(284)	8,584	(1,730)	(4,986)	(2,863)
Finance costs	(3,520)	12,664	(12,622)	8,865	(21,992)	16,289	18,126	16,957
Depreciation of property and equipment	3,022	2,816	2,868	2,806	2,805	2,253	2,048	2,150
Amortization of other intangibles	4,101	4,100	4,056	3,977	4,156	3,187	3,111	2,922
EBITDA (1)	**23,679**	**19,348**	**23,117**	**20,103**	**32,264**	**19,622**	**18,924**	**19,896**
Goodwill impairment	8,400	-	-	-	-	-	-	-
Adjusted EBITDA (1)	**32,079**	**19,348**	**23,117**	**20,103**	**32,264**	**19,622**	**18,924**	**19,896**

(1) *Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures.*

During the last eight quarters, the following items have had a significant impact on the Corporation's financial results:

- Revenue varies directly in relation to the number of cases performed as well as to the type of cases performed and the payor. For example, revenue for orthopedic cases will typically be higher than ear, nose and throat cases and cases funded by Medicare or Medicaid will be lower than those paid for by private insurance. Changes in case volumes, case mix and payor mix are normal and expected due to the nature of the Corporation's business. Surgical cases are mainly elective procedures and the volume of cases performed in any given period are subject to medical necessity and patient and physician preferences in scheduling (e.g., work schedules and vacations). The Corporation generally records higher revenue in the fourth quarter as many patients tend to seek medical procedures at the end of the year, primarily as a result of their inability to carry over unused insurance benefits into the following calendar year. During the course of the last eight quarterly reporting periods, revenue has also been impacted by the periodic receipt of electronic health record incentive payments, development of urgent and primary care service lines, and new acquisitions.

- The changes in operating expenses are consistent with fluctuations in case volumes and case mix as well as development costs related to the Corporation's strategic move into urgent and primary care. In addition, operating expenses have been impacted by costs related to the establishment of an accountable care organization by SFSH as well as the entering by SFSH into a management agreement for the orthopedic service line (refer to Section 12 of this MD&A under heading "Related Party Transactions").

- Revenue and operating expenses have been impacted by acquisitions during the year (refer to Section 3 of this MD&A under the heading "Business Overview").

- The changes in the recorded value of the convertible debentures have been driven by the changes in the market price of the Corporation's convertible debentures and fluctuations in the value of the Canadian dollar against the U.S. dollar.

- The changes in the recorded value of the exchangeable interest liability have been driven by (i) the changes in the number of common shares issuable for the exchangeable interest liability, which are in turn driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) the changes in the market price of the Corporation's common shares, and (iii) the fluctuations of the value of the Canadian dollar against the U.S. dollar.

- The fluctuations in interest expense on the exchangeable interest liability are due to the variation in distributions from the Facilities between the reporting periods.

- The fluctuations in loss (gain) on foreign currency have been driven by the movements of exchange rate of the Canadian dollar in relation to U.S. dollar.

- Fluctuations in current income taxes have been driven by the changes in operating performance of the Facilities, the deductibility of corporate expenses, intercompany interest expense deductions and taxable (deductible) foreign exchange gains (losses). Fluctuations in deferred income taxes have been driven primarily by the changes in the exchangeable interest liability and Canadian cumulative tax operating loss carryforwards, along with the impact of U.S. tax reform encompassed in the TCJA, effective January 1, 2018.

7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

The following table presents reconciliation of cash available for distribution to cash provided by operating activities:

		Three Months Ended December 31,		Years Ended December 31,	
In thousands of U.S. dollars, except as indicated otherwise		**2017** *Unaudited*	**2016** *Unaudited*	**2017**	**2016**
CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**20,581**	**20,088**	**79,986**	**78,290**
Non-controlling interest in cash flows of the Facilities [1]		(14,556)	(14,360)	(43,860)	(41,859)
Interest expense on exchangeable interest liability [2]		1,968	2,181	8,692	8,616
Difference between straight-line rent expense and actual payments made [3]		250	281	1,024	833
Maintenance capital expenditures [4]		(1,269)	(1,027)	(4,259)	(2,557)
Difference between accrual based amounts and actual cash flows related to interest and taxes [5]		(1,389)	(414)	2,083	652
Change in non-cash operating working capital items [6]		9,097	7,831	926	(1,723)
Share-based compensation[7]		(73)	-	(341)	-
Repayment of non-revolving debt [8]		(1,507)	(1,237)	(4,431)	(4,016)
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**13,102**	**13,343**	**39,820**	**38,236**
	CDN	**16,654**	**17,805**	**51,710**	**50,655**
DISTRIBUTIONS	**CDN**	**8,705**	**8,732**	**34,881**	**34,929**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE [9]	**CDN**	**$0.54**	**$0.57**	**$1.67**	**$1.63**
TOTAL DISTRIBUTIONS PER COMMON SHARE [9]	**CDN**	**$0.28**	**$0.28**	**$1.13**	**$1.13**
PAYOUT RATIO		**52.3%**	**49.0%**	**67.5%**	**69.0%**
Average exchange rate of Cdn$ to US$ for the period		1.2713	1.3344	1.2986	1.3248
Weighted average number of common shares outstanding		30,950,345	31,045,945	31,002,972	31,050,084

[1] *Non-controlling interest in cash flows of the Facilities is deducted in determining cash available for distribution as distributions from the Facilities to the non-controlling interest holders are required to be made concurrently with distributions from the Facilities to the Corporation.*

[2] *Interest expense on exchangeable interest liability represents a notional amount of interest expense deducted in the determination of net income attributable to owners of the Corporation. It is added back to determine cash available for distribution as it is a non-cash charge and is not distributable to the holders of the non-controlling interest.*

[3] *Difference between straight-line rent expense and actual payments made represents the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made. As a non-cash adjustment, this item is added back in the calculation of cash available for distribution.*

[4] *Maintenance capital expenditures at the Facility level reflect expenditures incurred to maintain the current operating capacities of the Facilities and are deducted in the calculation of cash available for distribution.*

[5] *Cash flows from operating activities, as presented in the Corporation's consolidated statements of cash flows, represent actual cash inflows and outflows, while calculation of cash available for distribution is based on the accrued amounts and, therefore, the difference between the accrual based amounts and actual cash inflows and outflows related to interest, income and withholding taxes is included in the above table.*

[6] *While changes in non-cash operating working capital are included in the calculation of cash provided by operating activities, they are not included in the calculation of cash available for distribution as they represent only temporary sources or uses of cash due to the differences in timing of recording revenue and corresponding expenses and actual receipts and outlays of cash. Such changes in non-cash operating working capital are financed from the available cash or credit facilities of the Facilities.*

[7] *Share-based compensation expense represents a charge included in salaries and benefits in the period which does not have a cash impact until the underlying stock options vest. As a non-cash item, this expense is added back in the calculation of cash available for distribution.*

[8] *Repayment of non-revolving debt at the Facility level reflects contractual obligations of the Facilities and is deducted in the calculation of cash available for distribution.*

[9] *Calculated based on the weighted average number of common shares outstanding.*

Cash available for distribution in the three-month period ended December 31, 2017 (Cdn$16.7 million) exceeded the total amount of distributions (Cdn$8.7 million) by Cdn$8.0 million. On a per common share basis, cash available for distribution of Cdn$0.54 was Cdn$0.26, or 92.9% higher than distributions of Cdn$0.28, resulting in a payout ratio of 52.3% as compared to a payout ratio of 49.0% in the same period in 2016.

Cash available for distribution in the year ended December 31, 2017 (Cdn$51.7 million) exceeded the total amount of distributions in the same period of 2017 (Cdn$34.9 million) by Cdn$16.8 million. On a per common share basis, cash available for distribution of Cdn$1.67 was Cdn$0.54, or 47.8%, higher than distributions of Cdn$1.13, resulting in a payout ratio of 67.5% as compared to a payout ratio of 69.0% in the same period in 2016.

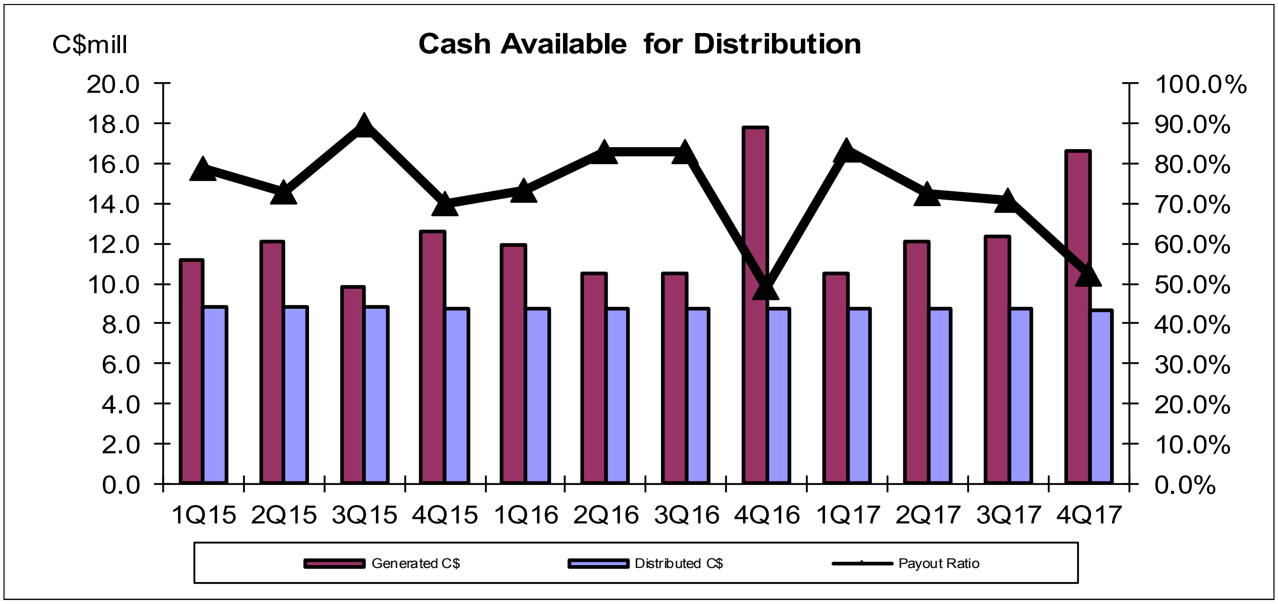
The Corporation's cash available for distribution comes solely from the Facilities. The following table provides a reconciliation of cash generated at the Facility level to the Corporation's cash available for distribution:

	Three Months Ended December 31,		**Years Ended December 31,**	
	2017	**2016**	**2017**	**2016**
In thousands of U.S. dollars	*Unaudited*	*Unaudited*		
Cash flows from the Facilities:				
Income before interest expense, depreciation and amortization	34,523	34,330	104,762	98,006
Debt service costs:				
Interest	(1,039)	(1,360)	(4,504)	(2,724)
Repayment of non-revolving debt	(1,509)	(1,237)	(4,432)	(4,016)
Maintenance capital expenditures	(1,269)	(1,027)	(4,259)	(2,557)
Loss on disposal of property and equipment	499	-	499	-
Difference between straight-line rent expense and actual payments made	250	281	1,024	833
Cash available for distribution at Facility level	31,455	30,987	93,090	89,542
Non-controlling interest in cash available for distribution at Facility level	(14,556)	(14,360)	(43,860)	(41,859)
Corporation's share of the cash available for distribution at Facility level	**16,899**	**16,627**	**49,230**	**47,683**
Corporate expenses	(1,541)	(1,594)	(7,401)	(6,195)
Interest expense on convertible debentures	(487)	(464)	(1,894)	(1,833)
Interest on Corporate credit facility	(607)	(226)	(2,314)	(742)
Provision for current income taxes	(1,162)	(1,000)	2,199	(677)
Cash available for distribution	**13,102**	**13,343**	**39,820**	**38,236**

Compared to the three months ended December 31, 2016, the cash available for distribution decreased by $0.2 million or 1.5% due mainly to higher interest payments on the corporate credit facility and higher current taxes, partly offset by an increase in cash flows from the Facilities,

Compared to the year ended December 31, 2016, the cash available for distribution increased by $1.6 million or 4.2% as lower current taxes and higher cash flows from the Facilities were partially offset by increased interest payments on the corporate credit facility and higher corporate expenses.

The chart below shows the Corporation's cash available for distribution, distributions and payout ratios for the last twelve quarters:



8. OUTLOOK

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to the overall impact of the U.S. and local economies, ongoing changes in the healthcare industry and management strategies of the Corporation. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth under the heading "Risk Factors" in this MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

The outlook for the Corporation is influenced by many inter-related factors including the economy, the healthcare industry and the management strategies of the Corporation.

The Economy

Management's expectations could be impacted by the general state of the U.S. economy. The strength of the local economies of the areas served by the Corporation's Facilities is an important factor in the Corporation's outlook.

Healthcare Industry

While impossible to currently quantify, the potential modification or replacement of the *Patient Protection and Affordable Care Act* ("PPACA"), demographic changes and growing healthcare costs present numerous challenges and opportunities, including:

- the challenge of continuing pressure on reimbursement levels from government-funded plans (Medicare, Medicaid and similar plans) and private insurance companies, combined with the increasing share of case volume that such plans represent;
- the opportunity for additional case volumes arising from ownership of, and participation in, accountable care organizations and the related challenge of payor mix shifting to Medicare plans;
- the opportunity arising from reimbursement incentives which reward healthcare entities that meet specified quality and operational goals and operate in the most efficient and cost-effective manner;
- the opportunity for an increase in the number of patients with health insurance which is expected to lead to an increase in surgical cases and a reduction in uncompensated care; and
- an increased demand for services provided by the Corporation's Facilities due to the increasing average age and life expectancy of the U.S. population, overall population growth and advances in science and technology.

It is still unclear what the final outcome will be for the expansion in Medicaid beneficiaries which was envisioned under the PPACA. South Dakota and Oklahoma have not implemented an expansion of their Medicaid plans, while Arkansas expanded Medicaid using an alternative to traditional expansion (see www.statereforum.org).

Management Strategies

Management is committed to increasing shareholder value, primarily through continued organic growth at its current Facilities, along with the acquisitions of new, accretive facilities that are complementary to the Corporation's core business, specifically in the SSH and ASC space. In addition to accretive core acquisitions, we will also consider other medical ventures where the financial and operational metrics are strong and could enhance a more comprehensive and integrated delivery model.

In collaboration with local management and physicians, management will continue to differentiate and grow the Corporation's Facilities by:

- maintaining service lines of the highest quality;
- physician development, including continued recruitment and retention of physician investors and potential physician utilizers, based on community needs;
- expanding the complement of service offerings at the Facilities;
- in-market acquisitions of ancillary businesses (ASCs, imaging and urgent care services); and

- sharing and implementing best practices and cost reduction strategies, with emphasis on supply chain and implant costs.

Management has a robust acquisition pipeline and will continue to investigate accretive acquisition targets that meet the Corporation's acquisition criteria to include facilities with:

- high quality service lines;
- physician alignment and/or affiliations; and
- strong earnings and growth potential.

Management will maintain its emphasis on continuation of these strategies, combined with a strong balance sheet, an experienced management team and continuing identification of suitable accretive opportunities to enhance the Corporation's operating performance.

U.S. Tax Reform

Management expects that it will be able to utilize carryforwards of disallowed current year interest expense deductions to future years. Pursuant to the TCJA, MFA's deductions attributable to the interest expense on the Promissory Notes (the interest paid by MFA on all debt, including the MFA Promissory Notes, less its interest income) will be limited to 30% of adjusted taxable income, which generally means EBITDA for the next four years (2018-2021), and earnings before interest and taxes ("EBIT") thereafter (2022 and beyond). Any disallowed interest expense may be carried forward to future years. This limitation applies to newly issued loans as well as those originated before 2018. Moreover, other limitations on the deductibility of interest under U.S. federal income tax laws, potentially including limitations applicable to certain high-yield debt obligations, could apply under certain circumstances to defer and/or eliminate all or a portion of the interest deduction that MFA would otherwise be entitled to with respect to interest on such indebtedness.

It should be noted that the sweeping changes in the TJCA have other elements that may be beneficial to MFA, but there are provisions that may be adverse to MFA. The extent to which these changes will result in a net benefit or detriment to MFA is uncertain at this time, however, due to the newness of the legislation and the need for significant further guidance from the U.S. Treasury and the IRS. There may also be changes made legislatively to the provisions of the TCJA to correct technical defects in the law.

9. LIQUIDITY AND CAPITAL RESOURCES

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to cash flows and future contractual payments. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth under the heading "Risk Factors" in this MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

Cash Balances

The Corporation's cash and cash equivalents balances, including restricted cash held in escrow, short-term investments and long-term investments, are as follows:

In thousands of U.S. dollars	**December 31, 2017**	**December 31, 2016**
Cash and cash equivalents at Facility level	11,915	13,928
Cash and cash equivalents at corporate level	44,114	37,086
Cash and cash equivalents	**56,029**	**51,014**
Restricted cash	-	6,437
	56,029	**57,451**
Short-term investments	8,934	8,569
Long-term Investments	-	1,613
Cash and cash equivalents, including restricted cash, short-term investments and long-term investments	**64,963**	**67,633**

Cash Flow Activity

Cash Flow

In thousands of U.S. dollars	**Years Ended December 31, 2017**	**2016**	**$ Change**	**% Change**
Cash provided by operating activities	79,986	78,290	1,696	2.2%
Cash used in investing activities	(10,187)	(74,171)	63,984	86.3%
Cash used in financing activities	(71,922)	(4,973)	(66,949)	(1,346.2%)
Decrease in cash and cash equivalents	**(2,123)**	**(854)**	**(1,269)**	**(148.6%)**
Effect of exchange rate fluctuations on cash balances held	701	336	365	108.6%
Cash and cash equivalents, beginning of the year	57,451	57,969	(518)	(0.9%)
Cash and cash equivalents, end of the year	**56,029**	**57,451**	**(1,422)**	**(2.5%)**

The Corporation expects to fund operations with cash derived from operating activities. Deficiencies arising from short-term working capital requirements and capital expenditures may be financed on a short-term basis with bank indebtedness as all Facilities have lines of credit available to them or on a permanent basis with offerings of securities. Negative changes in the general state of the U.S. economy could affect the Corporation's liquidity by reducing cash generated from operating activities or by limiting access to short-term financing as a result of tightening credit markets.

Operating Activities and Working Capital

Cash from operating activities in the year ended December 31, 2017 increased by $1.7 million compared to the same period in 2016, primarily due to higher income from facilities and lower corporate tax payments, offset partially by higher interest payments on the corporate credit facility and increased corporate office expenses.

As at December 31, 2017, the Corporation had consolidated net working capital of $33.8 million compared to $74.0 million as at December 31, 2016. The decline was mainly due to the outstanding balance payable on the corporate credit facility becoming a current liability. The level of working capital, including financing required to cover any deficiencies, is dependent on operating performance of the Corporation and fluctuates from period to period.

As at December 31, 2017, accounts receivable were $63.5 million (December 31, 2016: $61.1 million), accounts payable and accrued liabilities totaled $42.3 million (December 31, 2016: $42.2 million), total assets were $459.6 million (December 31, 2016: $492.5 million) and total long-term liabilities, excluding the exchangeable interest liability, were $82.3 million (December 31, 2016: $135.9 million).

Investing Activities

The $64.0 million increase from cash used in investing activities for the year ended December 31, 2017 compared to the same period in 2016 was mainly due to outflows in the prior year for the investments in UMASH ($27.8 million) and IMD ($1.8 million), the purchase of UMASH's underlying real estate through RRIMH ($27.4 million), and lower purchases of property and equipment in the current year ($4.8 million), offset partly by lower net proceeds from the sale of bank investments ($1.5 million).

Financing Activities

The $66.9 million decrease from cash used in financing activities for the year ended December 31, 2017 was mainly due to higher proceeds from the corporate credit facility in the prior year which were used to fund investing activities ($47.8 million), lower net proceeds from revolving credit facilities at the Facilities ($7.7 million), and higher note repayments in the current year ($9.9 million).

The Facilities have available credit facilities in place, excluding capital leases, in the aggregate amount of $34.5 million, of which $6.8 million was drawn as at December 31, 2017. The balances available under the credit facilities, combined with cash and cash equivalents as at December 31, 2017, are available to manage the Facilities' accounts receivable, supply inventory and other short-term cash requirements. The Facilities' access to available financing resources, including those with fixed interest rates, is sufficient to manage its exposure to changes in interest rates on the Facilities' revolving credit facilities, which are on a floating basis. As at December 31, 2017, the Facilities were all in compliance with the terms of their debt covenants.

With the exception of UMASH, the partnership or operating agreements governing each of the respective Facilities 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 has in place a Cdn$100.0 million line of credit with a Canadian chartered bank which matures on December 31, 2018 ("credit facility"). The credit facility can be used for general corporate purposes, including working capital and capital expenditures, finance of acquisitions, repayment of convertible debentures, and/or repurchase of the Corporation's common shares. During the third quarter of 2016, $47.8 million was drawn under the credit facility in relation to the acquisition of UMASH and its underlying property through RRIMH, and remained outstanding as at December 31, 2017. Management believes it will be able to renew its line of credit such that it will continue to be available for general corporate purposes. As at December 31, 2017, the Corporation was in compliance with all of its debt covenants.

The Corporation's convertible debentures are denominated in Canadian dollars and are reflected in the financial statements in U.S. dollars at fair value at the rate of exchange in effect at the balance sheet date. As at December 31, 2017, the Corporation had Cdn$41.7 million aggregate principal amount of convertible debentures outstanding while the market value of the convertible debentures was $33.5 million. The convertible debentures pay interest semi-annually in arrears on June 30 and December 31 of each year. The convertible debentures mature on December 31, 2019 ("Maturity Date") and are convertible into 52.3286 common shares per Cdn$1,000 principal amount of convertible debentures, at any time, at the option of the holder, representing a conversion price of Cdn$19.11 per common share ("Conversion Price"). If the holders of the convertible debentures do not exercise the right to convert their holdings into the Corporation's common shares prior to the Maturity Date, the principal amount is due and payable in full. The convertible debentures are subordinate to all other existing and future senior unsecured indebtedness of the Corporation.

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

After December 31, 2017 but prior to the Maturity Date, the convertible debentures may be redeemed in whole or in part from time to time at the option of the Corporation, at a redemption price equal to the principal amount plus accrued and unpaid interest up to but excluding the redemption date.

Contractual Obligations

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

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

The Corporation anticipates renewing, extending, repaying or replacing its credit facilities which fall due over the next twelve months and expects that cash flows from operations and working capital will be adequate to meet future payments on other contractual obligations over the next twelve months.

10. SHARE CAPITAL AND DIVIDENDS

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to the Corporation's expected payment of dividends. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth under the heading "Risk Factors" in this MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

On May 1, 2016, the Corporation granted stock options to acquire 1,000,000 common shares of the Corporation to its former Chief Executive Officer, exercisable at C$17.24 per share. As a result of the former Chief Executive Officer transition, 223,562 of the options had vested, and 776,438 were forfeited. On September 18, 2016, the Corporation granted stock options to acquire 350,000 common shares of the Corporation to its Chief Development Officer, exercisable at C$21.15 per share. On November 21, 2016 the Corporation granted stock options to acquire 425,000 common shares of the Corporation to its Executive Vice President Finance, who was appointed to the position of Chief Financial Officer on January 1, 2017, exercisable at C$17.98 per share. The stock option grant to the Chief Financial Officer were approved by shareholders at the Corporation's annual and special meeting held on May 11, 2017. On May 18, 2017, stock options to acquire 350,000 common shares of the Corporation were granted to its Chief Operating Officer, who is now the Chief Executive Officer, exercisable at C$16.47 per share. Outstanding options will vest after five years of employment, subject to the Corporation's maintenance of a dividend rate not less than the rate in effect at the time of the grant date. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to a blackout extension term.

As at December 31, 2017, and as at the date of this document, the Corporation had 30,950,345 common shares outstanding. In the event that all Cdn$41.7 million aggregate principal amount of convertible debentures outstanding were converted into the common shares of the Corporation prior to their Maturity Date, the total number of additional common shares issuable would be 2,184,353.

Normal Course Issuer Bids

The Corporation's normal course issuer bid allowing the Corporation to repurchase up to 620,919 of its common shares is in effect from May 16, 2017 to May 15, 2018. During the year ended December 31, 2017, the Corporation purchased 95,600 of its common shares for $1,094.

During the year ended December 31, 2016, the Corporation purchased 67,500 of its common shares for total consideration of $644.

All common shares acquired under the bids were cancelled.

Dividends

Dividend declarations are determined based on monthly reviews of the Corporation's earnings, capital expenditures and related cash flows. Such declarations take into account that the cash generated in the period is to be distributed to the maximum extent considered prudent after (i) debt service obligations, (ii) other expense and tax obligations, and (iii) reasonable reserves for working capital, and capital expenditures. The Corporation maintained a consistent level of monthly distributions since its formation (in aggregate Cdn$1.10 per common share annually) until September 2012, when the monthly distribution was increased to Cdn$0.09375 per common share (or Cdn$1.125 per common share annually). The Corporation expects, subject to its monthly performance reviews as explained above and the judgment of the board of directors, to maintain the current level of dividends on its common shares. Cash distributions declared in the period from January 1, 2017 to December 31, 2017 totaled Cdn$1.125 per common share.

Dividend Reinvestment and Share Purchase Plan

The Corporation has a Dividend Reinvestment and Share Purchase Plan which allows shareholders resident in Canada to automatically re-invest, in a cost-effective manner, the monthly cash dividends on their common shares into additional common shares of the Corporation.

11. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the consolidated balance sheet as at December 31, 2017 consist of cash and cash equivalents, short-term and long-term investments, accounts receivable, interest payable, dividends payable, accounts payable, accrued liabilities, borrowings (including long-term debt, corporate credit facility and convertible debentures) and exchangeable interest liability.

The fair values of convertible debentures and exchangeable interest liability are determined based on the closing trading price of the securities at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these instruments bear interest at rates comparable to current market rates. The fair values of all other financial instruments of the Corporation, due to the short-term nature of these instruments, approximate their carrying values.

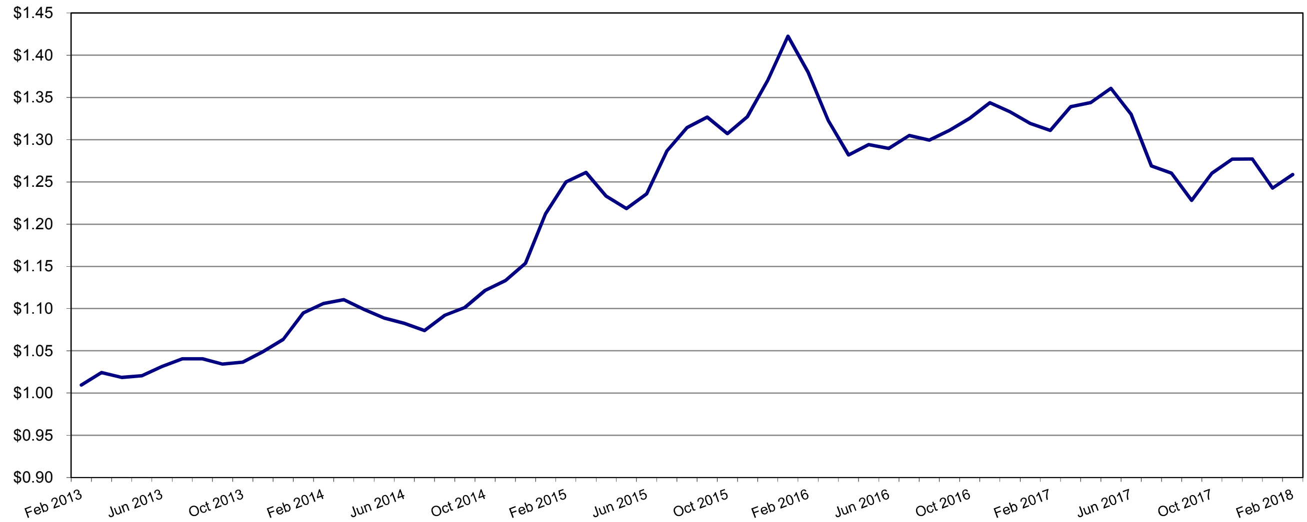
Foreign Exchange Risk

The Facilities derive revenue, incur expenses and make distributions to their owners, including the Corporation, in U.S. dollars. The Corporation pays dividends to common shareholders and interest on its convertible debentures and incurs a portion of its expenses in Canadian dollars. The amounts of distributions from the Facilities to their owners, including the Corporation and non-controlling interest, are dependent on the results of the operations and cash flows generated by the Facilities in any particular period.

Strengthening of the Canadian dollar against the U.S. dollar negatively impacts currency translation differences with respect to the funds available for the Corporation’s Canadian dollar denominated dividend and interest payments and expenses. A weakening Canadian currency in relation to U.S. currency has the opposite effect.

The graph below shows the movement of the monthly average exchange rates between Canadian and U.S. dollars since February 2013:

Canadian Dollars per 1 U.S. Dollar



The Corporation may, from time to time, enter into foreign exchange forward contracts dependent upon actual or anticipated company performance and current market conditions. As of December 31, 2017, the Corporation did not hold any foreign exchange forward contracts.

Credit Risk

The substantial portion of the Corporation's accounts receivable balance is with governmental payors and health insurance companies which are assessed as having a low risk of default and is consistent with the Facilities' history with these payors. 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 estimate of recoverability. Considerations related to historical experience are also factored into the valuation of the current period accounts receivable.

From time to time, the Corporation may enter into foreign exchange forward contracts and may place excess funds for investment with certain financial institutions. Investment of excess funds is guided by the investment policy of the Corporation that, among other things, (i) prescribes the eligible types of investments and (ii) establishes limits on the amounts that can be invested with any one financial institution.

Interest Rate Risk

The Corporation and the Facilities are exposed to interest rate fluctuations which can impact their borrowing costs. The Facilities use floating rate debt facilities for operating lines of credit that fund short-term working capital needs and use fixed rate debt facilities to fund investments and capital expenditures.

Share Price Risk

The Corporation's convertible debentures and exchangeable interest liability are measured on quoted market prices of its convertible debentures and common shares in active markets and, therefore, the Corporation is exposed to variability in net income as prices change. Share price risk includes the impact of foreign exchange. The Corporation does not have any hedges against price risk.

Liquidity Risk

Liquidity risk is the risk that the Corporation, including its Facilities, will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through the management of its capital structure and financial leverage. The Corporation also manages liquidity risk by continuously monitoring actual and projected cash flows and by taking into account the receipts and maturity profile of financial assets and liabilities. The board of directors of the Corporation reviews and approves operating and capital budgets, as well as any material transactions out of the ordinary course of business.

12. RELATED PARTY TRANSACTIONS

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

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facilities and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. For the year ended December 31, 2017, SFSH paid the South Dakota Interventional Pain Institute LLC ("SDIPI") $659 ($659), for the use of a facility and related equipment. As of December 31, 2017, SFSH had a balance payable to SDIPI of $59 (2016: $39). For the year ended December 31, 2017, BHSH paid MPREH $180 for the use of a facility (2016: $nil).

In February 2015, SFSH incorporated a wholly-owned subsidiary which is designed to function as an accountable care organization ("ACO"). The ACO was approved for participation in the Medicare Shared Savings Program, which is an incentive program established under the provisions of the PPACA. As one of the initiatives of the ACO, SFSH entered into an agreement with Great Plains Surgical, LLC ("Great Plains"), an entity controlled by certain indirect non-controlling owners of SFSH, for the provision of management services in relation to the orthopedic service line at SFSH to improve the quality of services provided and realize savings on implants and other supplies used in that service line. In addition to the payment of fees for providing management of the orthopedic service line, Great Plains is entitled to receive performance payments for realized cost savings and the attainment of quality levels.

The following is a summary of transactions at each Facility with their respective related parties during the reporting periods:

In thousands of U.S. dollars		**Years Ended December 31,**	
Entity	**Nature of services or goods received**	**2017 $**	**2016 $**
ASH	Lease of facility building, anesthesia equipment lease, and sub-lease of MRI equipment.	5,233	5,046
UMASH	Provision of physician professional services and billing services.	4,033	1,329
OSH	Provision of office and management services, lease of hospital building, and lease of office space.	1,567	1,567
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	888	773
SFSH	Provision of management services in relation to orthopedic service line at SFSH, physician professional fees, anesthesia services, physical and occupational therapy services, medical products and implants, lithotripter services, laundry services, facility and related equipment, and shared services.	7,556	7,575
Total		**19,277**	**16,290**

13. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The Corporation estimates certain amounts reflected in its 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. Notes 22 and 23 to the financial statements of the Corporation for the year ended December 31, 2017 detail critical accounting judgments and estimates used in the preparation of the Corporation’s financial statements. There have been no changes in the nature of these judgments and estimates since December 31, 2016.

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.

Revenue

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

Allowance for Non-Collectible Receivable Balances

The Facilities maintain an allowance for non-collectible receivable balances for estimated losses resulting from the inability to collect on its accounts receivable. To arrive at allowance for non-collectible receivable balances, management uses estimates that are based on the age of the outstanding accounts receivable and on historical collection and loss experience. Future collections of accounts receivable that differ from current estimates would affect the results of operations in future periods. The allowance for non-collectible receivable balances is subject to change as general economic, industry and customer specific conditions change.

Impairment of Non-Financial Assets

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

The methodology used to test for impairment includes significant judgment, estimates, and assumptions. Impairment exists when the carrying amount of an asset or CGU exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell ("FVLCS") and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses, cash flows, and discount rates at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature, impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

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

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

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

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

Management calculates the recoverable amount of each CGU using EBITDA specific to each CGU by a multiple determined using market data, such as EBITDA to market capitalization ratios of comparable publicly traded companies and recent prices for capital transactions within the industry. Management has estimated cost to dispose to be 1% of the fair value of the CGUs, based on recent market data. To ensure reasonableness of recoverable amounts, management reconciles the recoverable amounts of its CGUs to the enterprise value of the Corporation as at December 31 based on (i) the market capitalization of the outstanding common shares, taking into account a 20% equity control premium attributable to the common shares, (ii) the fair value of convertible debentures outstanding, and (iii) the Corporation's portion of the Facilities' long-term debt, less (iv) cash on hand.

For the year ended December 31, 2017, the recoverable amount of all of the CGUs was based on FVLCS.

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

Management performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2017 and concluded that goodwill was impaired in the UMASH/RRIMH and IMD CGUs, with impairment charges of $7,000 and $1,400 respectively.

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. Pursuant to the U.S. federal tax law changes enacted on December 22, 2017 (Public law no. 115-97, more commonly known by the name of “The Tax Cuts and Jobs Act” or “TCJA”) and effective January 1, 2018, the Corporation’s United States federal corporate income tax rate was reduced to 21 percent from its effective 2017 federal tax rate of 34 percent. The Corporation has used figures reflecting the new rate for the estimation of its deferred tax provision, for the year ended December 31, 2017.

14. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the financial information published by the Corporation. In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) have certified that the annual filings fairly present in all material respects the financial condition, results of operations and cash flows and have also certified regarding controls as described below.

Under the supervision of, and with the participation of the CEO and the CFO, management has designed disclosure controls and procedures (“DC&P”) to provide reasonable assurance that (i) material information relating to the Corporation, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities for the period in which the annual and interim filings of the Corporation are being prepared, and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

In addition to DC&P, under the supervision of, and with the participation of the CEO and the CFO, management has designed internal controls over financial reporting (“ICFR”) using the 2013 Committee of Sponsoring Organizations of the Treadway Commission framework to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

Management, including the CEO and the CFO, performed an evaluation of the effectiveness of DC&P as of December 31, 2017, and has concluded that the design and effectiveness of these controls and procedures at December 31, 2017 provide reasonable assurance that material information relating to the Corporation, including its subsidiaries, was made known to the CEO and CFO on a timely basis to ensure adequate disclosure.

Management, including the CEO and the CFO, performed an evaluation of the effectiveness of its ICFR as of December 31, 2017 using the COSO framework. Management has concluded that the overall design and effectiveness of these controls at December 31, 2017 provide reasonable assurance of the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

There have been no changes in the Corporation’s ICFR during the year beginning on January 1, 2017 and ended on December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Corporation’s ICFR.

From time to time, to supplement a small corporate office, the Corporation engages various outside experts and advisors to assist with various accounting, controls and tax issues in the normal course.

15. RISK FACTORS

The following information is a summary of risk factors and is qualified in its entirety by reference to, and must be read in conjunction with the detailed information appearing in the Corporation's most recently filed annual information form available on SEDAR at www.sedar.com.

Risks Related to the Business and the Industry of the Corporation

The revenue and profitability of the Corporation and its subsidiaries, including the Facilities, depend heavily on payments from third-party payors, including government healthcare programs (Medicare and Medicaid) and managed care organizations, which are subject to frequent regulatory changes and cost containment initiatives. Changes in the terms and conditions of, or reimbursement levels under, insurance or healthcare programs, which are typically short-term agreements, could adversely affect the revenue and profitability of the Corporation. The Corporation's revenue and profitability could be impacted by its ability to obtain and maintain contractual arrangements with insurers and payors active in its service areas and by changes in the terms of such contractual arrangements.

The revenue and profitability of the Facilities is dependent upon physician relationships. There can be no assurance that physician groups performing procedures at the Facilities will maintain successful medical practices, or that one or more key members of a particular physician group will continue practicing with that group or that the members of that group will continue to perform procedures at the Facilities at current levels or at all.

The trend of rising drug costs is currently challenging to counteract and puts downward pressure on the Facilities' operating margins as they have limited control over price increases.

Healthcare facilities, such as the Facilities, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Receipt and renewal of such licenses, certifications and accreditations are often based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative compliance actions by the Facilities that could be burdensome and expensive.

There are a number of U.S. federal and state regulatory initiatives, which apply to healthcare providers, and in particular to SSHs, including the Facilities. Among the most significant are the federal Anti-Kickback Statute, the federal physician self-referral law (commonly referred to as the Stark Law), the PPACA, the *False Claims Act* and the federal rules relating to management and protection of patient records and patient confidentiality.

The PPACA contains provisions that prohibit the formation or development of any new physician owned hospitals in the United States after a specified date. However, the grandfathering provisions of the law that permit existing physician owned hospitals, such as the Facilities, to continue their operations and billings to government payors like Medicare and Medicaid for hospital services, provided they meet certain investment and patient transparency requirements. The law, among other things:

(a) prohibits the existing or grandfathered hospitals from expanding the baseline number of overnight beds, operating rooms or procedure rooms from the number of such rooms that the existing hospital had as of the date of enactment of the legislation, unless certain narrowly-drawn growth criteria are met;

(b) prohibits increases in the aggregate percentage value of physician ownership or investment in physician owned hospitals, or in entities whose investments include the hospitals;

(c) imposes restrictions on the manner of physician investment in physician owned hospitals; and

(d) requires disclosure to patients of physician ownership and requires hospitals to obtain a signed patient acknowledgement as to whether the hospital has physicians present 24 hours a day, seven days a week.

The Corporation conducted an extensive review to ensure that the Facilities operating agreements and procedures are in compliance with the provisions and limitations of the PPACA. The Facilities have updated their operating agreements and procedures as necessary to ensure compliance with the requirements of the PPACA.

While the Facilities carry general and professional liability insurance against claims arising in the ordinary course of business, the insurance market is dynamic and there can be no assurance that adequate coverage will be available in the future or that any coverage in place will be adequate to cover claims.

Any major capital expenditures at the Facilities will require additional capital, which may be funded through additional debt or equity financings. These funding sources could result in significant additional interest expense or ownership dilution to current holders of the Corporation's securities.

There is significant competition in the healthcare business. The Facilities compete with other healthcare facilities in providing services to physicians and patients, contracting with managed care payors and recruiting qualified staff.

The Facilities may be vulnerable to economic downturns and may be limited in their ability to withstand such financial pressures. Increased unemployment or other adverse economic conditions may impact the volume of services performed, cause shifts to payors with lower reimbursements (e.g., Medicare) and/or result in higher uncollectible accounts.

Maintenance capital expenditures, which are deducted in the calculation of cash available for distribution (please refer to Section 2 under the heading "Non-IFRS Financial Measures" and Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures" above), represent expenditures that are required to maintain the productive capacity of the Facilities. Historically, such expenditures have represented on average 1.2% of revenue of the Facilities. Management believes that such level of maintenance capital expenditures will continue in the future and, accordingly, will not adversely impact the cash available for distribution generated by the Corporation.

Cyber Security Incidents

As providers of healthcare services, information technology is a critical component of the day-to-day operation of the Facilities. The Facilities rely on information technology to process, transmit and store sensitive and confidential data, including protected health information, personally identifiable information, and proprietary and confidential business performance data. The Facilities utilize electronic health records and other health information technology, along with additional technology systems, in connection with their operations, including for, among other things, billing and supply chain and labour management. The Facilities have privacy and security processes in place to protect sensitive health and business information. The systems used by the Facilities, in turn, interface with and rely on third-party systems. Incident response policies and processes are in place at Facilities that provide for prompt identification and management of security incidents to facilitate maintenance and/or restoration of business continuity. The Corporation is not aware of the Facilities having experienced a material breach of cyber security.

The preventive actions taken to reduce the risk of such incidents and protect information technology may not be sufficient in the future. As cyber security threats continue to evolve, the Facilities may not be able to anticipate certain attack methods in order to implement effective protective measures, and may be required to expend significant additional resources to continue to modify and strengthen security measures, investigate and remediate any vulnerabilities in information systems and infrastructure, or invest in new technology designed to mitigate security risks. Third parties to whom the Facilities outsource certain functions, or with whom their systems interface, are also subject to the risks outlined above and may not have or use appropriate controls to protect confidential information. A breach or attack affecting a third-party service provider or partner could harm the Corporation's business even if the Corporation does not control the service that is attacked.

Although the Corporation and the Facilities have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event. Any cyber security breach or system interruption could result in the unauthorized disclosure, misuse or loss of confidential, sensitive or proprietary information, could negatively impact the ability of the Facilities to conduct normal business operations (including the collection of revenues), and could result in potential liability under privacy, security, consumer protection or other applicable laws, regulatory penalties, negative publicity and damage to the Corporation's reputation, any of which could have a material adverse effect on the Corporation's business, financial position, results of operations or cash flows.

Risks Related to the Structure of the Corporation

The Corporation is entirely dependent on the operations and assets of the Facilities through the indirect ownership of between 51.0% and 65.0% of these Facilities. Future dividend payments by the Corporation are not guaranteed and are totally dependent upon the operating results and related cash flows from the Facilities and the limitations of applicable laws.

The payout by the Facilities and the Corporation of a substantial majority of their operating cash flows will make additional capital and operating expenditures dependent on increased cash flows or additional financing in the future.

The Corporation's dividend payments to its shareholders are denominated in Canadian dollars, whereas all of its revenue is denominated in U.S. dollars. To the extent that future dividend payments are not covered by foreign exchange forward contracts, the Corporation is exposed to currency exchange risk.

There can be no assurance that the Corporation will be able to repay the principal amount outstanding on its convertible debentures when due. Additionally, the convertible debentures are payable in Canadian dollars and, therefore, the Corporation is exposed (at maturity and/or repayment) to currency exchange risk with respect to the principal amounts of these instruments.

Non-competition agreements executed by physician owners of the non-controlling interests in the Facilities may not be enforceable, which lack of enforceability could impact the revenue and profitability of the Facilities.

The Corporation does not have the ability to direct day-to-day governance or management inputs in respect of the Facilities, except in certain limited circumstances.

The degree to which the Corporation is leveraged on a consolidated basis could have important consequences to the holders of the common shares, including:

(a) The Corporation's and Facilities' ability in the future to obtain additional financing for working capital, capital expenditures, acquisitions or other purposes may be limited.

(b) The Corporation or Facilities being unable to refinance indebtedness on terms acceptable to the Corporation or at all.

(c) A portion of the Corporation's cash flow (on a consolidated basis) from operations is likely to be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations, capital expenditures, acquisitions and/or dividends on its common shares.

The Corporation has a credit facility that contains restrictive covenants which limit the discretion of the Corporation or its management with respect to certain matters. Furthermore, the Facilities have credit facilities that contain restrictive covenants which may limit the Facilities' abilities to make distributions.

Additional common shares may be issued by the Corporation pursuant to exchange agreements with the holders of the non-controlling interests in the Facilities, in connection with future financing or acquisitions by the Corporation or in connection with the exercise of the conversion option by the holders of the convertible debentures. The issuance of common shares may dilute an investor's investment in the Corporation and reduce distributable cash per common share.

MFA, MFH and Medical Facilities IMD Holdings, Inc. are organized under the laws of the State of Delaware. The Facilities that are located in South Dakota are formed under the laws of the State of South Dakota. The Facility located in Indiana is formed under the laws of the State of Indiana, the Facility located in Oklahoma is formed under the laws of the State of Oklahoma, the Facility located in Arkansas is formed under the laws of the State of Arkansas and the Facility located in California is formed under the laws of the State of Delaware. All of the assets of the Facilities are located outside of Canada and certain of the directors and officers of the Corporation and its subsidiaries are residents of the United States. As a result, it may be difficult or impossible for investors to effect service within Canada upon the Corporation's subsidiaries, the Facilities, or their directors and officers who are not residents of Canada, or to realize against them in Canada upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws.

The market price of the common shares may be subject to general volatility.

Payment of Dividends is not Guaranteed

Dividends to shareholders are paid at the discretion of the Corporation's board of directors and are not guaranteed. The Corporation may alter its dividend level and dividends from the Corporation, if any, will depend on, among other things, the results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law, and other factors that the board of directors may deem relevant. The directors may decrease the level of dividends provided for in their existing dividend policies, or discontinue dividends at any time, and without prior notice.

Eligibility for Investment

There can be no assurance that the common shares will continue to be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, tax-free savings accounts and registered disability savings plans.

The Corporation is Subject to Canadian Tax

As a Canadian corporation, the Corporation is generally subject to Canadian federal, provincial and other taxes. The Corporation is required to include in computing its taxable income the interest received by the Corporation on the two promissory notes issued by MFA to the Corporation ("MFA Promissory Notes"). Management expects that the Corporation's existing tax attributes will be available currently to offset this income inclusion such that it will not result in a current material liability for Canadian taxes. However, once the Corporation fully utilizes its existing tax attributes (or if, for any reason, these attributes were not available to the Corporation), the Corporation's Canadian tax liability would materially increase. Although management intends to explore potential opportunities in the future to preserve the tax efficiency of the Corporation's structure, no assurances can be given that the Corporation's Canadian tax liability will not materially increase at that time.

There can be no assurance that Canadian federal income tax laws and Canada Revenue Agency's administrative policies respecting the Canadian federal income tax consequences generally applicable to the Corporation or to a holder of common shares will not be changed in a manner which adversely affects holders of the Corporation's common shares.

The Corporation's Structure may be Subject to Additional U.S Federal Income Tax Liability

MFA is subject to U.S. federal income tax on its income at regular corporate rates (34% for 2017, but changing to 21% beginning 2018) and is also subject to certain U.S. state and local taxes). MFA will claim interest deductions for the interest paid on MFA Promissory Notes in computing its income for U.S. federal income tax purposes. To the extent this interest expense deduction is disallowed or is otherwise not deductible, the U.S. federal income tax liability of MFA will increase, which could materially affect the after-tax cash available to distribute to the Corporation and therefore to holders of common shares. While the Corporation has received advice from an independent third party, based on certain representations by the Corporation and MFA and determinations made by the Corporation's independent financial advisors, that the MFA Promissory Notes should be treated as debt for U.S. federal income tax purposes, it is possible that the Internal Revenue Service ("IRS") could successfully challenge that position and assert that the MFA Promissory Notes should be treated as equity rather than debt for U.S. federal income tax purposes.

The determination of whether the MFA Promissory Notes are debt or equity for U.S. federal income tax purposes is based on an analysis of the facts and circumstances. There is no clear statutory definition of debt for U.S. federal income tax purposes, historically its characterization has been governed by principles developed in case law, which analyzes numerous factors that are intended to identify the economic substance of the purported creditor's interest in the corporation. Not all courts have applied this analysis in the same manner, and some courts have placed more emphasis on certain factors than other courts have. In addition, on October 13, 2016, the IRS issued final and temporary regulations that address the treatment of certain related-party debt for U.S. federal income tax purposes. These regulations apply to certain debt instruments issued by domestic (i.e., U.S.) corporations, and could apply to the Promissory Notes if those instruments are modified or if new debt instruments are issued by Medical Facilities America. Moreover, subsequent changes in fact or subsequent actions or inactions by the Corporation or MFA could impact this analysis or could be used by the IRS to call into question this analysis or the facts.

Alternatively, the IRS could argue that the interest on the MFA Promissory Notes exceeds an arm's length rate, in which case only the portion of the interest expense that does not exceed an arm's length rate may be deductible and the remainder would be subject to U.S. withholding tax to the extent that MFA had current or accumulated earnings and profits. The Corporation has received advice from independent financial advisors that the interest rates on the MFA Promissory Notes are commercially reasonable in the circumstances. However, the advice received by the Corporation is not binding on the IRS.

Pursuant to the TCJA, MFA's deductions attributable to the interest expense on the Promissory Notes (the interest paid by MFA on all debt, including the MFA Promissory Notes, less its interest income) will be limited to 30% of adjusted taxable income, which generally means EBITDA for the next four years (2018-2021), and earnings before interest and taxes ("EBIT") thereafter (2022 and beyond). Any disallowed interest expense may be carried forward to future years. This limitation applies to newly issued loans as well as those originated before 2018. Moreover, other limitations on the deductibility of interest under U.S. federal income tax laws, potentially including limitations applicable to certain high-yield debt obligations, could apply under certain circumstances to defer and/or eliminate all or a portion of the interest deduction that MFA would otherwise be entitled to with respect to interest on such indebtedness.

A successful challenge of this position taken by MFA with respect to interest deductibility would increase the U.S. federal income tax liability of MFA for the applicable open tax years, which would affect the ability of MFA to make interest and principal payments on the MFA Promissory Notes and would reduce the amount of after-tax cash generated by MFA that could otherwise be available to make distributions to the Corporation. In addition, payments of interest would be re-characterized as non-deductible equity distributions and would be subject to U.S. withholding tax to the extent MFA had current or accumulated earnings and profits.

It should be noted that the sweeping changes in the TJCA have other elements that may be beneficial to MFA, but there are provisions that may be adverse to MFA. The extent to which these changes will result in a net benefit or detriment to MFA is uncertain at this time, however, due to the newness of the legislation and the need for significant further guidance from the U.S. Treasury and the IRS. There may also be changes made legislatively to the provisions of the TCJA to correct technical defects in the law.

United States Investment Company Act of 1940

While the Corporation believes that through its subsidiaries and affiliates it is actively engaged in operating businesses and does not meet the definition of an investment company for purposes of the *United States Investment Company Act of 1940* (the "1940 Act"), depending on the composition and valuation of the Corporation's assets and the sources of the Corporation's income from time to time, the Corporation could fall within the technical definition of the term "investment company" in the 1940 Act. Moreover, the determination of whether a company like the Corporation is an investment company involves complex analysis of regulations and facts, and the Corporation has not sought and does not anticipate seeking confirmation from the Securities and Exchange Commission (the "SEC") that it agrees with the Corporation's analysis. If the SEC were to disagree with the Corporation's analysis or the Corporation otherwise were to determine that it is an investment company as defined in the 1940 Act, the Corporation may, among other steps, prudently acquire or sell assets in order to avoid remaining an "investment company" as defined under the 1940 Act. Such acquisitions or sales could be on terms other than those on which it would otherwise acquire or sell such assets or the timing of such transactions could be disadvantageous to the Corporation. If the Corporation were unable to avoid being an investment company and were therefore required to register as such under the 1940 Act, the Corporation would become subject to substantial regulation with respect to its capital structure (including its ability to use leverage), management, operations, transactions with affiliated persons, portfolio composition (including restrictions with respect to diversification), and other matters.

16. NEW AND REVISED IFRS ADOPTED

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

IAS 7 *Statement of Cash Flows* ("IAS 7")

As part of their disclosure initiative, the International Accounting Standards Board ("IASB") issued amendments to IAS 7 requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a Corporation.

IAS 12 *Income Taxes* ("IAS 12")

In January 2016, the IASB issued amendments to IAS 12 to provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value.

17. NEW AND REVISED IFRS NOT YET ADOPTED

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

IFRS 2 *Share-Based Payments* ("IFRS 2")

In September 2016, the IASB issued amendments to IFRS 2. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Corporation intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018.

IFRS 9 *Financial Instruments* ("IFRS 9")

The IASB has issued the complete IFRS 9 in 2014, replacing the multiple rules in IAS 39 *Financial Instruments – Recognition and Measurement*. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The Corporation intends to adopt IFRS 9 for the annual period beginning on January 1, 2018. The Corporation is currently reviewing the impact of this standard and continues to evaluate the key differences if any. The extent of the impact of the adoption has not yet been determined.

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 *Construction Contracts*, IAS 18 *Revenue*, and the related Interpretations when it becomes effective. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Corporation intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Corporation is in the process of completing its analysis of the terms of key contracts, and based on its evaluation of the new standard expects its impact to be minimal.

IFRS 16 *Leases* ("IFRS 16")

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

IFRIC 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23")

In June 2017, the IASB issued IFRIC 23 in response to diversity in practice for various issues in circumstances in which there is uncertainty in the application of the tax law. While IAS 12 provides requirements on the recognition and measurement of current and deferred tax liabilities and assets, there is diversity in the accounting for income tax treatments that have yet to be accepted by tax authorities. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019 and may be applied on a fully retrospective basis, if this is possible without the use of hindsight, or on a modified retrospective basis, with an adjustment to equity on initial application. Earlier application is permitted. The Corporation intends to adopt IFRIC 23 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption has not yet been determined.

Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

December 31, 2017 and 2016
(In U.S. dollars)

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FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Management's Responsibility for Financial Reporting

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

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

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

"Robert O. Horrar"

Robert O. Horrar
Chief Executive Officer

"Tyler C. Murphy"

Tyler C. Murphy
Chief Financial Officer

Toronto, Canada
March 21, 2018

KPMG LLP
Bay Adelaide Centre
Suite 4600
333 Bay Street
Toronto ON M5H 2S5
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Medical Facilities Corporation

We have audited the accompanying consolidated financial statements of Medical Facilities Corporation, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Medical Facilities Corporation as at December 31, 2017 and December 31, 2016, its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

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

MEDICAL FACILITIES CORPORATION

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

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

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

MEDICAL FACILITIES CORPORATION

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

		Attributable to Owners of the Corporation				Non-controlling Interest	Total Equity
		Share Capital $	Contributed Surplus $	Deficit $	Total $	$	$
2017							
Balance at January 1, 2017		397,522	181	(248,994)	148,709	65,403	214,112
Net income and comprehensive income for the year		-		20,637	20,637	25,942	46,579
Share-based compensation	21	-	341	-	341	-	341
Dividends to owners of the Corporation		-	-	(26,927)	(26,927)	-	(26,927)
Distributions to non-controlling interest		-	-	-	-	(32,306)	(32,306)
Contributions by ASH Urgent Care Center non-controlling interest	18	-	-	-	-	68	68
Step-up investment in RRIMH		-	-	-	-	(245)	(245)
Purchase of common shares under normal course issuer bids	9.3	(1,094)	-	-	(1,094)	-	(1,094)
Balance at December 31, 2017		**396,428**	**522**	**(255,284)**	**141,666**	**58,862**	**200,528**
2016							
Balance at January 1, 2016		398,166	-	(232,312)	165,854	48,828	214,682
Net income and comprehensive income for the year		-		9,754	9,754	29,940	39,694
Share based compensation	21	-	181	-	181	-	181
Dividends to owners of the Corporation		-	-	(26,436)	(26,436)	-	(26,436)
Distributions to non-controlling interest		-	-	-	-	(32,058)	(32,058)
Acquisition of Unity Medical and Surgical Hospital		-	-	-	-	17,012	17,012
Acquisition of Integrated Medical Delivery, L.L.C.		-	-	-	-	1,681	1,681
Purchase of common shares under normal course issuer bids	9.3	(644)	-	-	(644)	-	(644)
Balance at December 31, 2016		**397,522**	**181**	**(248,994)**	**148,709**	**65,403**	**214,112**

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

MEDICAL FACILITIES CORPORATION

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

	Note	Years Ended December 31, 2017 $	2016 $
Facility service revenue		**385,329**	**339,472**
Operating expenses			
Salaries and benefits		108,449	95,774
Drugs and supplies		114,960	99,632
General and administrative expenses		67,273	53,362
Impairment of goodwill	6.3	8,400	-
Depreciation of property and equipment	5	11,512	9,255
Amortization of other intangibles	6.2	16,234	13,376
		326,828	**271,399**
Income from operations		**58,501**	**68,073**
Finance costs			
Increase in value of convertible debentures	8	1,431	1,488
Increase (decrease) in value of exchangeable interest liability	12.2	(9,927)	15,353
Interest expense on exchangeable interest liability	12.2	8,692	8,616
Interest expense, net of interest income	16	5,892	4,258
Gain on foreign currency		(701)	(336)
		5,387	**29,379**
Income before income taxes		**53,114**	**38,694**
Income tax expense (recovery)	15	6,535	(994)
Income for the period from continuing operations		**46,579**	**39,688**
Discontinued operation			
Income for the period from discontinued operation, net of tax		**-**	**6**
Net income and comprehensive income for the year		**46,579**	**39,694**
Attributable to:			
Owners of the Corporation		20,637	9,754
Non-controlling interest	10	25,942	29,940
		46,579	**39,694**
Earnings per share			
From continuing and discontinued operations			
Basic	9.2	$ 0.67	$ 0.31
Fully diluted	9.2	$ 0.54	$ 0.30
From continuing operations			
Basic	9.2	$ 0.67	$ 0.31
Fully diluted	9.2	$ 0.54	$ 0.30

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

MEDICAL FACILITIES CORPORATION

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

	Note	Years Ended December 31, 2017 $	2016 $
Cash flows from operating activities			
Net income for the year		46,579	39,694
Adjustments for:			
Depreciation of property and equipment	5	11,512	9,255
Amortization of other intangibles	6.2	16,234	13,376
Impairment of goodwill	6.3	8,400	-
Share of equity income in associates	17.1	(107)	(123)
Change in value of convertible debentures	8	1,431	1,488
Change in value of exchangeable interest liability	12.2	(9,927)	15,353
Gain on foreign currency		(701)	(336)
Loss on disposal of property and equipment		499	-
Income tax expense (recovery)	15	6,535	(994)
Share-based compensation	21	341	181
Interest expense, net of interest income		14,584	12,874
		95,380	90,768
Changes in non-cash operating working capital	11	(926)	1,723
		94,454	92,491
Interest paid, net of received		(14,584)	(12,874)
Income and withholding taxes received (paid)		116	(1,327)
Net cash provided by operating activities		**79,986**	**78,290**
Cash flows from investing activities			
Purchase of property and equipment	5	(11,190)	(43,704)
Business combinations	4	(245)	(33,260)
Redemption of short-term and long-term bank investments		1,248	2,793
Net cash used in investing activities		**(10,187)**	**(74,171)**
Cash flows from financing activities			
Net proceeds from revolving credit facilities and issuance of notes payable		2,030	57,470
Repayments of notes payable at the facilities and IMD		(13,885)	(4,016)
Distributions, return of capital and loan receivable from an associate	17.1	33	78
Investment in Black Hills Surgical Hospital, LLP by non-controlling interest		-	572
Investment in ASH Urgent Care Center by non-controlling interest	18	68	-
Distributions to non-controlling interest	10	(32,306)	(32,058)
Dividends paid		(26,768)	(26,375)
Purchase of common shares under the terms of normal course issuer bids	9.3	(1,094)	(644)
Net cash used in financing activities		**(71,922)**	**(4,973)**
Decrease in cash and cash equivalents		**(2,123)**	**(854)**
Effect of exchange rate fluctuations on cash balances held		701	336
Cash and cash equivalents, beginning of the year		57,451	57,969
Cash and cash equivalents, end of the year		**56,029**	**57,451**
Non-cash transactions:			
Investment in equity accounted investees	17.1	-	678

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

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

1. REPORTING ENTITY

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

The Corporation's operations are based in the United States. Through its wholly-owned subsidiaries, the Corporation owns controlling interests in five specialty hospitals and one ambulatory surgery center (the "Facilities"). The Corporation also owns a 51% controlling interest in Integrated Medical Delivery, L.L.C., a diversified healthcare service company that provides third-party business solutions to healthcare entities, and 92% of RRI Mishawaka Hospital, LP ("RRIMH"), an entity which owns the land and building for one of its facilities.

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

		Ownership Interest December 31,	
Facilities	**Location**	**2017**	**2016**
Arkansas Surgical Hospital, LLC ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
Unity Medical and Surgical Hospital ("UMASH")	Mishawaka, Indiana	62.0%	62.0%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	60.3%	60.3%
Black Hills Surgical Hospital, LLP ("BHSH")	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP ("SFSH")	Sioux Falls, South Dakota	51.0%	51.0%
The Surgery Center of Newport Coast, LLC ("SCNC")	Newport Beach, California	51.0%	51.0%
Other			
RRI Mishawaka Hospital, LP ("RRIMH")	Mishawaka, Indiana	92.0%	84.0%
Integrated Medical Delivery, L.L.C. ("IMD")	Oklahoma City, Oklahoma	51.0%	51.0%

2. STATEMENT OF COMPLIANCE

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

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

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

3. BASIS OF PREPARATION

These consolidated financial statements include the accounts of the Corporation and its subsidiaries and have been prepared on the historical cost basis except for certain financial instruments and share-based compensation, which are measured at fair value (note 22.13).

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

4. BUSINESS COMBINATIONS

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

On October 3, 2016, SFSH acquired 100% of Prairie States Surgical Center, L.L.C. ("PSSC") for a purchase price of $20,281, consisting of $4,309 consideration in cash and $15,972 of seller and other financing. Seller financing is required to be paid in equal instalments over a period of five years, and included in long-term debt on the consolidated balance sheet.

PSSC is an 8,000 square foot facility with two operating rooms focused on providing facilities for orthopedic procedures, and has been integrated into the operations of SFSH. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of PSSC are included in the consolidated financial statements through the consolidation of SFSH.

The final purchase price allocation as at December 31, 2017 is as follows:

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

Other intangibles represent the value of a non-compete agreement with the physician-owners of PSSC that will be amortized over an estimated useful life of five years. Approximately $142 of acquisition-related costs have been recognized as an expense in the consolidated statement of income and comprehensive income. The goodwill attributable to this acquisition includes the value of the workforce acquired, the benefit of future revenue growth, opportunities to expand within the marketplace and other key competitive advantages.

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

4. BUSINESS COMBINATIONS (Continued)

In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2016.

4.2 Unity Medical and Surgical Hospital

On September 23, 2016, the Corporation acquired an indirect 62.0% controlling interest in UMASH, a medical and surgical hospital located in Mishawaka, Indiana for a cash purchase price of $27,750, with funding from a draw on the Corporation's credit facility. The hospital's operations are 86.0% owned by Physician's ASC Management LLC. ("PAM"). Under the terms of the agreement, the Corporation purchased a 72.1% interest in PAM (representing an indirect 62.0% ownership interest in UMASH). All but four percent of the remaining ownership interest in PAM can be purchased over the three subsequent anniversaries of the initial closing, at a price to be determined by the fair market value of the hospital at the end of the prior calendar year.

UMASH is a 49,000 square foot, 29-bed Medicare-certified facility with four surgical and two special procedure suites focused on providing facilities for orthopedic, ophthalmology, podiatry, pain management, and spine surgery procedures. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of UMASH are included in the consolidated financial statements.

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

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

4. BUSINESS COMBINATIONS (Continued)

Other intangibles principally represent the values of the care network at UMASH that will be amortized over estimated useful lives of 13-18 years. The goodwill attributable to this acquisition includes the value of the workforce acquired, the benefit of future revenue growth, opportunities to expand within the marketplace and other key competitive advantages.

The payment of $27,750 was settled in cash of $16,348 and payables to the seller of $11,402, which was subsequently settled by December 31, 2016.

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

In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2016.

4.3 RRI Mishawaka Hospital LP

On July 15, 2016, RRIMH purchased real estate assets consisting of UMASH's underlying land and building for $27,387. RRIMH is a limited partnership in which the Corporation has an 92% interest and the remaining 8% interest in the partnership is held indirectly by Rainier Realty Investments, LP, a third party. The Corporation originally owned an 84% ownership interest in RRIMH, acquiring a further 8% interest on July 27, 2017 for $245. The Corporation consolidates the results of operations and the financial position of this partnership in its consolidated financial statements. The purchase of the real estate assets was funded solely by a loan from the Corporation. The Corporation funded the loan from its available cash and a $20,000 draw on its corporate credit facility.

4.4 Integrated Medical Delivery, L.L.C.

On January 14, 2016, the Corporation acquired a 51% controlling interest in IMD for a cash purchase price of $1,750. IMD is a diversified healthcare service company located in Oklahoma City, Oklahoma that provides business solutions to healthcare entities such as physician practices, facilities, and insurance companies. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of IMD are included in the consolidated financial statements.

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

4. BUSINESS COMBINATIONS (Continued)

The final purchase price allocation is as follows:

	$
Current assets, less current liabilities (including cash of $12)	410
Property and equipment	337
Goodwill	4,082
Long-term debt	(1,398)
Non-controlling interest	(1,681)
Fair value of net assets acquired	**1,750**

The goodwill attributable to this acquisition includes the value of the workforce acquired, the benefit of future revenue growth and opportunities to expand within the marketplace.

5. PROPERTY AND EQUIPMENT

	Land and Improvements	Construction in Progress	Building and Improvements	Equipment and Furniture	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2016	5,953	2,119	61,458	52,125	121,655
Additions	1,359	2,786	35,421	4,138	43,704
Disposals	-	(90)	(5)	(197)	(292)
Disposition of assets to MPREH	-	-	(4,193)	(108)	(4,301)
Purchase of IMD, UMASH and PSSC assets	-	-	1,116	2,508	3,624
Balance at December 31, 2016	7,312	4,815	93,797	58,466	164,390
Additions	38	(3,673)	6,591	8,234	11,190
Disposals	-	-	(788)	(1,364)	(2,152)
Adjustment to UMASH purchase price	-	-	-	1,000	1,000
Balance at December 31, 2017	**7,350**	**1,142**	**99,600**	**66,336**	**174,428**
Accumulated Depreciation					
Balance at January 1, 2016	(91)	-	(26,434)	(34,009)	(60,534)
Charged for the year	(25)	-	(2,777)	(6,453)	(9,255)
Disposals	-	-	15	277	292
Balance at December 31, 2016	(116)	-	(29,196)	(40,185)	(69,497)
Charged for the year	(26)	-	(3,849)	(7,637)	(11,512)
Disposals	-	-	289	1,364	1,653
Balance at December 31, 2017	**(142)**	**-**	**(32,756)**	**(46,458)**	**(79,356)**
Carrying Amounts					
At December 31, 2016	7,196	4,815	64,601	18,281	94,893
At December 31, 2017	**7,208**	**1,142**	**66,844**	**19,878**	**95,072**

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

5. PROPERTY AND EQUIPMENT (Continued)

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

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

6. GOODWILL AND OTHER INTANGIBLES

6.1 Goodwill

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

6.2 Other intangibles

	Hospital Operating Licenses	Medical Charts and Records	Care Network	Trade Names	Non-Compete	Total
	$	$	$	$	$	$
Cost						
Balance at January 1, 2016	1,476	7,399	195,923	9,128	-	213,926
Purchase of UMASH assets	1,100	200	43,200	-	-	44,500
Purchase of PSSC assets	-	-	-	-	1,200	1,200
Balance at December 31, 2016	2,576	7,599	239,123	9,128	1,200	259,626
Balance at December 31, 2017	**2,576**	**7,599**	**239,123**	**9,128**	**1,200**	**259,626**
Accumulated Amortization						
Balance at January 1, 2016	(1,092)	(7,015)	(135,716)	-	-	(143,823)
Amortization charges	(244)	(192)	(12,880)	-	(60)	(13,376)
Balance at December 31, 2016	(1,336)	(7,207)	(148,596)	-	(60)	(157,199)
Amortization charges	(418)	(227)	(15,350)	-	(239)	(16,234)
Balance at December 31, 2017	**(1,754)**	**(7,434)**	**(163,946)**	**-**	**(299)**	**(173,433)**
Carrying Amounts						
At December 31, 2016	1,240	392	90,527	9,128	1,140	102,427
At December 31, 2017	**822**	**165**	**75,177**	**9,128**	**901**	**86,193**
Amortization period (years)	5	5-10	10-18	N/A (indefinite life)	5	

6. GOODWILL AND OTHER INTANGIBLES (Continued)

6.3 Impairment

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

The Corporation identified seven CGUs for which impairment testing was performed. Management calculated the recoverable amount of each CGU by determining the fair value less costs to sell. Management has estimated cost to dispose to be 1% of the fair value of the CGUs, based on recent market data.

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

For the December 31, 2017 impairment test, enterprise value to EBITDA multiples of 8.0 to 9.0 (2016: 7.0 to 9.5) were determined to be appropriate based on the factors specific to each CGU and a comparison to market information available at the time of the test.

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

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

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

6. GOODWILL AND OTHER INTANGIBLES (Continued)

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

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

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

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

7. LONG-TERM DEBT

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

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

7. LONG-TERM DEBT (Continued)

Each credit facility and note payable is secured by an interest in all property and a mortgage on real property owned by the respective Facility and IMD. These credit facilities and notes payable contain certain restrictive financial and non-financial covenants. As at December 31, 2017, the Facilities and IMD were in compliance with their covenants.

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

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

8. CONVERTIBLE DEBENTURES

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

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

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

8. CONVERTIBLE DEBENTURES (Continued)

After December 31, 2017, but prior to the Maturity Date, the convertible debentures may be redeemed in whole or in part from time to time at the option of the Corporation, at a redemption price equal to the principal amount plus accrued and unpaid interest up to but excluding the redemption date.

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

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

9. SHARE CAPITAL

9.1 Share capital

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

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

9.2 Earnings per share

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

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

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

9. SHARE CAPITAL (Continued)

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

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

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

[2] *For the year ended December 31, 2016, the impact of convertible debentures, exchangeable interest liabilities were excluded from the dilutive weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.*

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

9. SHARE CAPITAL (Continued)

9.3 Normal course issuer bids

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

The purchases under the bids are recorded in share capital. All common shares acquired under these bids were cancelled.

10. NON-CONTROLLING INTEREST

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

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

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

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

10. NON-CONTROLLING INTEREST (Continued)

December 31, 2016	ASH $	UMASH $	OSH $	BHSH $	SFSH $	SCNC $	IMD $	RRIMH $
Non-controlling interest percentage	**44%**	**38%**	**35%**	**35%**	**35%**	**49%**	**49%**	**16%**
Current assets	10,840	20,682	14,339	15,442	26,114	3,234	1,329	483
Non-current assets	6,109	1,936	3,538	26,553	47,688	801	266	27,064
Current liabilities	8,492	8,876	5,342	8,747	24,518	464	431	547
Non-current liabilities	1,922	24,526	2,968	13,729	28,947	-	1,163	27,265
Equity attributable to owners of the Corporation	3,660	(6,686)	6,219	12,687	13,219	1,822	-	(223)
Non-controlling interest	2,875	(4,098)	3,348	6,832	7,118	1,750	-	(42)
Facility service revenue	67,350	14,203	63,544	85,536	97,562	8,011	5,708	1,077
Operating expenses	53,076	13,027	53,574	60,029	64,446	6,411	5,051	1,342
Net income attributable to owners of the Corporation	8,000	729	6,481	16,580	21,526	816	335	(223)
Net income attributable to non-controlling interest	6,286	447	3,490	8,927	11,590	784	322	(42)
Net income (loss)	**14,286**	**1,176**	**9,971**	**25,507**	**33,116**	**1,600**	**657**	**(265)**
Distributions to non-controlling interest	6,887	-	3,654	9,100	11,340	1,006	-	-
Cash flows from operating activities	15,826	(2,091)	12,710	28,248	33,739	2,162	739	601
Cash flows from investing activities	(536)	103	(148)	(10,135)	(8,450)	(28)	(28)	(27,383)
Cash flows from financing activities [1]	(16,013)	8,656	(12,189)	(17,472)	(26,497)	(2,053)	(236)	27,265
Net cash inflow (outflow)	**(723)**	**6,668**	**373**	**641**	**(1,208)**	**81**	**475**	**483**

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

10.1 Significant restrictions

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

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

11. NET CHANGES IN NON-CASH WORKING CAPITAL

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 Foreign exchange forward contracts

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

12.2 Exchangeable interest liability

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

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

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

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

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

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

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.3 Fair values and classification of financial instruments

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

The following table presents the carrying values and classification of the Corporation's financial instruments as at December 31, 2017 and December 31, 2016:

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

	December 31, 2016			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	51,014	-	-	51,014
Short-term investments	8,569	-	-	8,569
Long Term Investments	1,613	-	-	1,613
Financial liabilities				
Convertible debentures	32,102	-	-	32,102
Exchangeable interest liability	-	77,034	-	77,034
Long-term debt	124,662	-	-	124,662
Total	**217,960**	**77,034**	**-**	**294,994**

12.4 Measurement of fair values

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

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5 Financial risk management

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

12.5.1 Foreign Exchange Risk

Dividends to common shareholders of the Corporation, exchangeable interest liability, interest on convertible debentures and a portion of the Corporation's expenses are settled in Canadian dollars while all of its revenues are in U.S. dollars. To mitigate this risk, from time to time, the Corporation may enter into foreign exchange forward contracts to economically hedge its exposure to the fluctuation of the exchange rate between U.S. and Canadian dollars. The Corporation has foreign exchange hedging policies in place and the execution of these policies is monitored by the Audit Committee of the Board of Directors. As at December 31, 2017, no foreign exchange forward contracts existed.

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

Exchange rate change	2017 $	2016 $
1% strengthening of the Canadian dollar	(1,250)	(372)
1% weakening of the Canadian dollar	1,250	372

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5.2 Credit Risk

The Corporation faces the following credit risks.

Revenue and Accounts Receivable

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

(i) governmental payors,

(ii) health and workers' compensation insurance companies,

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

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

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

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

Services to the beneficiaries of Medicare and Medicaid and other governmental insurance programs as well as independent members of the Blue Cross and Blue Shield System are reimbursed primarily based on the established amounts, service codes and fees schedules subject to certain limitations. Reimbursements from other private insurance companies are based on the discounts from the rate established at the Facilities in accordance with the contracts with such companies (see note 22.19).

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The table below summarizes the percentages of facility service revenue generated from and accounts receivable balances with each primary third-party payor group in 2017 and 2016:

	2017		2016	
	Facility Service Revenue by Payor %	**Accounts Receivable at December 31 by Payor %**	**Facility Service Revenue by Payor %**	**Accounts Receivable at December 31 by Payor %**
Medicare and Medicaid – category (i)	30.7	13.2	28.7	13.4
Blue Cross and Blue Shield – category (ii)	32.1	32.6	35.1	34.7
Workers' compensation – category (ii)	7.8	9.6	8.0	8.3
Other private insurance – category (iii)	21.3	25.1	19.7	28.9
Other insurance and self-pay – categories (iv) and (v)	8.1	19.5	8.5	14.7
	100.0	**100.0**	**100.0**	**100.0**

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

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

The table below summarizes the aging of the Corporation's accounts receivable and related allowance for non-collectible receivable balances as at December 31, 2017 and December 31, 2016:

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

Concentration of Financial Institutions

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

12.5.3 Interest Rate Risk

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

The interest rate profile of the Corporation's interest-bearing financial liabilities as at December 31, 2017 and December 31, 2016 was:

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

A change of 100 basis points in the interest rates in the reporting period would have led to an increase or a decrease in interest expense of $57 (2016: $84) on facilities with variable interest rates. This does not include the impact of the adjustment of fair value of the convertible debentures since these are fixed-rate instruments.

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.5.4 Price Risk

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

12.5.5 Liquidity Risk

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

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

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

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

13. CAPITAL

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

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

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

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

In order to maintain or adjust the capital structure, the Corporation may enter into or repay credit facilities, adjust the amount of dividends paid to common shareholders, repurchase its publicly traded securities or issue new shares or convertible debt. During the year ended December 31, 2017, the Corporation returned capital to shareholders through the repurchase and cancellation of 95,600 common shares under the normal course issuer bids for $1,094 (note 10.3). During the year ended December 31, 2016, the Corporation repurchased and cancelled 67,500 of common shares for $644 under the same program.

14. EMPLOYEE FUTURE BENEFITS

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

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

15. INCOME TAXES

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

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

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

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

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

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

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

15. INCOME TAXES (Continued)

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

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

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

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

Losses related to the Canadian entity may be used to offset the future income of the Canadian entity for Canadian income tax purposes. As of December 31, 2017, the Corporation has recognized deferred income tax assets of $7,782 in respect of net operating loss carry forwards that will be offset against future taxable income in the Canadian entity.

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

15. INCOME TAXES (Continued)

The components of deferred income tax balances are as follows:

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

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

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

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

17. RELATED PARTY TRANSACTIONS AND BALANCES

17.1 Equity accounted investments

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

17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

The Corporation has a 0.35% ownership interest in an entity that holds an indirect interest in BHSH for a total investment of $341 (December 31, 2016: $341), for which the investment is accounted for at cost in the consolidated financial statements.

Together, the three investments comprise the 'Other assets' on the consolidated balance sheet.

17.2 Related party transactions

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

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facilities and equipment. These parties are considered related as the facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. For the year ended December 31, 2017, SFSH paid SDIPI $659 for the use of a facility and related equipment (2016: $659). As of December 31, 2017, SFSH had a balance payable to SDIPI of $59 (2016: $39). For the year ended December 31, 2017, BHSH paid MPREH $180 for the use of a facility (2016: $nil).

17.3 Key management and governance compensation

Key management and governance personnel are comprised of executive officers and the directors of the Corporation. Fees were paid for information systems consulting to a vendor which was closely related to a member of key management personnel for $6 for the year ended December 31, 2016, with no commensurate expense for the year ended December 31, 2017.

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

17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

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

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

18. INVESTMENT

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

19. COMMITMENTS AND CONTINGENCIES

19.1 Commitments

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

19.2 Contingencies

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

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

20. CEO TRANSITION

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

21. SHARE-BASED COMPENSATION

At the Corporation's annual and special meeting of shareholders held on May 12, 2016, shareholders approved a grant of stock options to acquire 1,000,000 common shares of the Corporation to its former CEO. The grant was effective May 1, 2016, and the stock options are exercisable at C$17.24 per share. At the time of the CEO transition, 223,562 of the options had vested, and 776,438 were forfeited. On September 19, 2016, stock options to acquire 350,000 common shares of the Corporation were granted to its Chief Development Officer, exercisable at C$21.15 per share. On November 21, 2016, stock options to acquire 425,000 common shares of the Corporation were granted to its Executive Vice-President, Finance, who was appointed Chief Financial Officer on January 1, 2017, exercisable at C$17.98 per share, subject to shareholder approval which was obtained at the Corporation's annual and special meeting of shareholders held on May 11, 2017. On May 18, 2017, stock options to acquire 350,000 common shares of the Corporation were granted to its Chief Operating Officer, now CEO, exercisable at C$16.47 per share. Outstanding options (the "Options") will vest after five years of employment, subject to the Corporation's maintenance of a dividend rate not less than the rate in effect at the time of the grant date. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to a blackout extension term.

During the year ended December 31, 2017, the Corporation recognized $341 (2016: $181) relating to the Options in salaries and benefits expense in the statement of income and comprehensive income. The grant date fair values of the Options were measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at the grant date of the share-based compensation plan are as follows:

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

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

21. SHARE-BASED COMPENSATION (Continued)

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

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

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

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

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

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

22. SIGNIFICANT ACCOUNTING POLICIES

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.1 Functional and presentation currency

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

22.2 Basis of consolidation

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

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

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

22.3 Business combinations

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

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

22.4 Segment information

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

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

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

22.5 Cash and cash equivalents

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.6 Short-term and long-term investments

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

22.7 Accounts receivable

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

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

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

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.8 Supply inventory

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

22.9 Property and equipment

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

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

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

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

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

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

22.10 Goodwill

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.11 Other intangibles

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

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

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

Hospital operating licenses	5 years
Non-compete agreements	5 years
Medical charts and records	5-10 years
Care networks	10-18 years

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

22.12 Impairment of non-financial assets

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

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

22.13 Financial assets and liabilities

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

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

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

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

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

(ii) Held-to-maturity

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

(iii) Loans and receivables

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iv) Other liabilities

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

22.14 Impairment of non-derivative financial assets

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

22.14.1 Financial assets measured at amortized cost

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

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

22.14.2 Equity-accounted investee

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

22.15 Measurements of fair value

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

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

22.16 Provisions

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

22.17 Convertible debentures

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

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.18 Exchangeable interest liability

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

22.19 Facility service revenue

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

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.20 Income taxes

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

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

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

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

22.21 Share-based payments

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

22.22 New and revised IFRS adopted

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

22.22.1 IAS 7 ***Statement of Cash Flows***

As part of their disclosure initiative, the IASB has issued amendments to IAS 7 *Statement of Cash Flows* requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a company.

22.22.2 IAS 12 ***Income Taxes***

In January 2016, the IASB has issued amendments to IAS 12 *Income Taxes* to provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value.

22.23 New and revised IFRS not yet adopted

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

22.22.3 IFRS 2 ***Share-Based Payments***

In September 2016, the IASB issued amendments to IFRS 2 *Share-Based Payments*. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Corporation intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018.

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.22.4 IFRS 9 *Financial Instruments*

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

22.22.5 IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 *Construction Contracts*, IAS 18 *Revenue*, and the related Interpretations when it becomes effective. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Corporation intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Corporation is in the process of completing its analysis of the terms of key contracts, and based on its evaluation of the new standard expects its impact to be minimal.

22.22.6 IFRS 16 *Leases*

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

22. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22.22.7 IFRIC 23 *Uncertainty over Income Tax Treatments*

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

23. USE OF JUDGMENTS AND ESTIMATES

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

23.1 Judgments

Information about management's judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes: (i) functional currency (discussed in note 22.2), (ii) segment information (discussed in note 22.5), (iii) recognition of deferred tax assets and liabilities (discussed in notes 15 and 22.20).

23. USE OF JUDGEMENTS AND ESTIMATES (Continued)

23.2 Estimates

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

24. SUBSEQUENT EVENT

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