MEDICAL FACILITIES CORPORATION

FOURTH QUARTER AND FISCAL 2022 YEAR END

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, 2022**

March 8, 2023

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 is supplemental to and should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Corporation for the year ended December 31, 2022 ("financial statements"), 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, except per share amounts, 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.

TABLE OF CONTENTS

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: the impact of the novel coronavirus SARS-CoV-2 ("COVID-19") on the Corporation's financial position and operations, 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 the 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. They are presented on a uniform basis from period to period, thereby allowing for consistent comparability. Management believes that the non-IFRS financial measures presented in this MD&A (i) are relevant for users of the Corporation's financial statements to assess the Corporation's performance and ability to pay dividends, and (ii) may be used to calculate certain ongoing rights and obligations of the Corporation. 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 Sections 5 and 6 of this MD&A under the heading "Reconciliation of net income for the period to EBITDA and Adjusted EBITDA" and 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 net cash provided by operating activities, before certain non-cash adjustments, including (i) net changes in non-cash operating working capital, (ii) share-based compensation, (iii) interest expense on exchangeable interest liability, and (iv) the difference between accrual-based amounts and actual cash flows related to interest and taxes, less (v) maintenance capital expenditures, (vi) payment of lease liabilities, (vii) repayments of notes payable by the Facilities (as defined below), and (viii) non-controlling interest in cash flows of the Facilities. 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 per the Bank of Canada. Management believes that cash available for distribution is relevant in understanding the Corporation's ability to earn cash and pay dividends to its shareholders.

- **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 declared.

- **Distributions per common share** is a non-IFRS financial measure calculated as the distributions divided by the weighted average number of common shares outstanding during the period.

- **Earnings before interest, taxes, depreciation and amortization** ("EBITDA") is a non-IFRS financial measure defined as net income for the period before (i) finance costs, (ii) income taxes, (iii) depreciation of property and equipment, (iv) depreciation of right-of-use assets, (v) amortization of other intangibles, and (vi) share of equity loss (income) in associates. Management believes that EBITDA is relevant in understanding the Corporation's ability to service its debt, finance capital expenditures and pay dividends to its shareholders.

- **Adjusted EBITDA** is a non-IFRS financial measure defined as EBITDA before impairment of goodwill, other intangibles and equipment, and transaction costs on the sale of controlling interest in Unity Medical and Surgical Hospital ("UMASH").

- **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. Management monitors the payout ratio to ensure the Corporation can adhere to its dividend policy.

3. BUSINESS OVERVIEW

The Corporation is a British Columbia corporation. The capital of the Corporation is in the form of publicly traded common shares. The Corporation's current quarterly dividend on its common shares is Cdn$0.0805 per common share (refer to Section 10 "Share Capital and Dividends" of this MD&A under the heading "Dividends").

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 retaining approval rights over certain significant governance matters, and derives substantially all of its income from, 10 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 10 Facilities are comprised of four SSHs located in Arkansas, Oklahoma, and South Dakota, and six ASCs located in California, Michigan, Missouri, Nebraska, Ohio and Pennsylvania. 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 orthopedics, neurosurgery, pain management and other non-emergency elective procedures. In addition, two of the SSHs provide urgent care services.

During the fourth quarter, the Corporation continued to execute its plan to divest its non-core assets, pursue overhead cost reductions, and implement strategies to unlock value and return capital to its shareholders. As part of this, the Corporation took steps to initiate overhead cost reductions as it concluded a separation agreement with its previous Chief Executive Officer. This, combined with the retirement on December 30, 2022 of the Corporation's former Chief Operating Officer, will result in significant savings in salaries and benefits on a prospective basis. The Corporation continues to pursue opportunities to reduce expenses.

On December 29, 2022, the Corporation sold its remaining 31.7% non-controlling ownership interest in UMASH for proceeds of $0.6 million, recording a pre-tax gain of $0.3 million in general and administrative expenses. Along with the sale of its equity interests, the Corporation also completed the full and final settlement of the loan receivable from UMASH ("Loan Receivable") for proceeds of $1.4 million, and, in connection with this transaction, recorded an impairment gain of the same amount on the Loan Receivable during the three months ended December 31, 2022. During the nine months ended September 30, 2022, the Corporation had recorded an impairment loss of $13.4 million on the Loan Receivable, resulting in a net impairment loss of $12.0 million on the Loan Receivable for the year ended December 31, 2022.

On November 29, the Toronto Stock Exchange approved the Corporation's normal course issuer bid, allowing the Corporation to repurchase up to 2,615,186 of its common shares during the period from December 1, 2022 to November 30, 2023. Under this, and a previous normal course issuer bid, the Corporation purchased a combined 1,827,200 of its common shares for a total consideration of $12.5 million during the year ended December 31, 2022.

On October 31, 2022, the Corporation completed the purchase and cancellation of 3,053,097 of its common shares under the terms of a substantial issuer bid, at a price of Cdn$11.30 per common share, representing an aggregate purchase price of $25.5 million, along with transaction costs of $0.4 million. The Corporation used a combination of cash on hand and a draw of $15.0 million from the corporate credit facility for the purchase.

On December 31, 2022, Mountain Plains Real Estate Holdings, LLC (“MPREH”) was wound-up. As part of this process, the entity’s assets were liquidated and proceeds were distributed to the owners. The Corporation received proceeds of $0.7 million for its 54.2% non-controlling ownership interest in MPREH.

On March 11, 2022, the Corporation sold its 0.4% non-controlling ownership interest in Black Hills Surgical Physicians, LLC (“BHSP”) for proceeds of $0.3 million.

COVID-19

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The outbreak began to impact the Corporation’s and Facilities’ operations in the latter half of March 2020. All Facilities were affected by the pandemic as elective cases were restricted, either voluntarily or by U.S. state or local government mandate, including the temporary closure of three of the MFC Nueterra ASCs, which reopened in May 2020. On January 30, 2023, the current U.S. administration announced that the COVID-19 Public Health Emergency is unlikely to continue past May 11, 2023. Management believes patient volumes and revenues may still continue to be negatively impacted until the effects of the pandemic have fully subsided.

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

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

The PHSSEF was administered by the Department of Health and Human Services (“HHS”) to provide eligible healthcare providers with relief funds to cover non-reimbursable expenses, including lost revenue, attributable to COVID-19. Funds not utilized for eligible expenses and not applied to lost revenues must be returned. The recognition of amounts received was conditioned upon receipt of the funds, the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, and certification that the payment would be used to prevent, prepare for and respond to COVID-19. For the year ended December 31, 2022, certain Facilities received $0.9 million in total funding from the HHS (December 31, 2021: $7.2 million), and recognized $1.4 million in revenue as government stimulus income (December 31, 2021: $9.7 million), which included an amount of $0.5 million which was recorded as a liability under payor advances and government stimulus funds repayable as at December 31, 2021.

The PPP expanded the guaranteed lending program under Section 7(a) of the *Small Business Act* administered by the US Small Business Administration ("SBA"). The loan amounts received are eligible for forgiveness to the extent they are used for certain qualifying expenses and to maintain payroll levels and related expenses during the 8 to 24-week period following loan origination. For the year ended December 31, 2022, the Facilities did not receive any funds under the PPP (December 31, 2021: $1.5 million).

Of the loans received under the PPP of $12.2 million during the year ended December 31, 2020, loans of $1.7 million were forgiven in full by the SBA, while loans of $6.4 million had been forgiven, pending additional review. The remaining balance of $4.1 million, relating to one Facility, was denied forgiveness on December 10, 2022, following a re-review of the loan forgiveness application by the SBA. The Facility has appealed the decision within the SBA's procedural framework.

For the loans received under the PPP of $1.5 million during the year ended December 31, 2021, all forgiveness applications were denied by the SBA in September 2022. The affected Facilities each filed an appeal against these denials. In November 2022, the SBA issued full forgiveness for loans of $0.6 million. In December 2022, the SBA withdrew its earlier decisions to deny forgiveness for loans of $0.5 million and initiated a re-review of the loan forgiveness applications. The Facilities whose loans remain under review or appeal also had loans of $0.9 million from an earlier round of the program which had been forgiven in full by the SBA.

The Facilities recognized income for the loans received under the PPP during prior periods based on reasonable assurance that they had met the requirements for forgiveness. However, due to the denial and additional review of certain loan forgiveness applications by the SBA in 2022, the Corporation no longer has reasonable assurance of meeting the forgiveness requirements for loans of $12.3 million, which consist of all PPP loan balances for Facilities whose forgiveness applications have been denied or are under review. As a result, these have been reversed from government stimulus income for year ended December 31, 2022, and recorded as a liability under payor advances and government stimulus funds repayable as at December 31, 2022. It remains to be seen if the SBA will reach further denial decisions for the PPP loans under review or appeal. There remains uncertainty over the final outcome as forgiveness applications for these PPP loans must still be formally decided upon by the SBA. Management plans to vigorously pursue all reasonably available channels for reversing any denials. Any loans subsequently forgiven will result in a recognition of income and a reversal of the corresponding liability.

Under the expansion of the Medicare Accelerated and Advance Payment Program most providers and suppliers could request an advance of three to six months of Medicare payments. Certain Facilities received net advances of $23.2 million for the year ended December 31, 2020. Repayment of these accelerated/advance payments commenced one year after issuance, upon which payments were recouped against Medicare claims. The advances were fully recouped as at December 31, 2022 (December 31, 2021: liability of $15.2 million).

The ERC was a refundable tax credit against certain employment taxes that could be claimed by eligible employers, whose business had been financially impacted by COVID-19, in their quarterly employment tax returns. For the year ended December 31, 2022, certain Facilities had claims approved under the ERC and recorded government stimulus income of $0.6 million (December 31, 2021: $0.2 million).

In addition to the CARES Act, the *Families First Coronavirus Response Act* ("FFCRA") was signed into law on March 18, 2020. This program mandated COVID-19 related family medical and paid sick leaves for employees and provided tax credits to reimburse employers for both sick leave and family medical leave. For the year ended December 31, 2021, certain Facilities qualified for the tax credits under the FFCRA and recorded government stimulus income of $0.1 million.

For the year ended December 31, 2022, the Facilities did not receive any other stimulus funds under state programs (December 31, 2021: $1.8 million), but recognized $0.1 million in revenue as government stimulus income (December 31, 2021: $1.7 million), which was recorded as a liability under payor advances and government stimulus funds repayable as at December 31, 2021.

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

On March 11, 2021, the American Rescue Plan Act, 2021 (the "ARP Act") was signed into law, introducing a $1.9 trillion economic stimulus package intended to facilitate recovery in the United States from the economic and health effects of COVID-19. Among its provisions, the ARP Act included $7.25 billion in appropriations to the SBA for the PPP, and a further extension of the ERC.

There is uncertainty regarding the implementation, duration and impact of the CARES Act, the CA Act, the ARP act, and other existing or future stimulus legislation, if any. There can be no assurance as to the total amount of financial assistance or types of assistance the Facilities will receive, that the Facilities will be able to comply with the applicable terms and conditions to retain such assistance, that the Facilities will be able to benefit from provisions intended to increase access to resources and ease regulatory burdens for health care providers or that additional stimulus legislation will be enacted.

Other Information

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. To date, the non-controlling interest owners of two of the eligible Facilities have exercised portions of their exchangeable interests.

<u>Summary of Facility Information as of December 31, 2022</u>

	Arkansas Surgical Hospital (“ASH”)	**Oklahoma Spine Hospital (“OSH”)**	**Black Hills Surgical Hospital (“BHSH”)**	**Sioux Falls Specialty Hospital (“SFSH”)**	**The Surgery Center of Newport Coast (“SCNC”)**	**MFC Nueterra ASCs**
Location	North Little Rock Arkansas	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California	Five locations[3]
Year Opened	2005	1999	1997	1985	2004	1997-2007
Year Acquired by the Corporation	2012	2005	2004	2004	2008	2018
Ownership Interest	51.0%	64.0%	54.2%	51.0%	51.0%	30-63%[3]
Non-controlling Interest	49.0%	36.0%	45.8%	49.0%	49.0%	70-37%[3]
Exchangeable Interest	5.0%	1.0%	10.8%	14.0%	-	-
Size	126,000 sq ft	61,000 sq ft	86,000 sq ft	76,000 sq ft	7,000 sq ft	5,000-14,000 sq ft
Operating/Procedure Rooms	13/2	7/2	11[2]	15	2/1	13/7
Overnight Rooms	41[1]	25	26	33	-	-

[1] *Licensed for 49 beds.*

[2] *Licensed for 12 rooms.*

[3] *Through the MFC Nueterra Partnership, the Corporation owns indirect interests between approximately 30% to 63% in five ASCs, situated in Michigan, Missouri, Nebraska, Ohio, and Pennsylvania.*

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information from Continuing Operations

In thousands of U.S. dollars, except per share amounts and as indicated otherwise	Year Ended December 31, 2022		2021		2020
Facility service revenue	424,551		398,633		363,854
Government stimulus income (costs)	(10,162)		13,099		26,008
Total revenue and other income	414,389		411,732		389,862
Operating expenses	379,450		334,374		322,068
Income from operations	34,939		77,358		67,794
Net income for the period from continuing operations	12,295		46,493		37,422
Attributable to:					
Owners of the Corporation [1]	(4,405)		15,500		9,591
Non-controlling interest [1]	16,700		30,993		27,831
Net loss for the period from discontinued operations, net of tax	-		-		(1,739)
Earnings (loss) per share from continuing operations attributable to owners of the Corporation					
Basic	($0.15)		$0.50		$0.31
Fully diluted	($0.15)		$0.50		$0.31
EBITDA [2]	55,702		104,127		95,682
Adjusted EBITDA [2]	72,251		104,127		96,132
Cash available for distribution [2]	C$ 27,536		C$ 37,448		C$ 40,005
Distributions [2]	C$ 9,302		C$ 9,011		C$ 8,710
Cash available for distribution per common share [2]	C$ 0.938		C$ 1.204		C$ 1.286
Distributions per common share [2]	C$ 0.317		C$ 0.290		C$ 0.280
Payout ratio [2]	33.8%		24.1%		21.8%

	December 31, 2022	December 31, 2021	December 31, 2020
Total assets	377,791	446,966	456,996
Total long-term financial liabilities	123,042	126,118	133,906

(1) *Net income (loss) from continuing operations attributable to owners of the Corporation fluctuates significantly between the periods due to variations in finance costs, primarily in the value of exchangeable interest liability, impairment of goodwill, other intangibles and equipment, impairment losses (gains) recorded on the Loan Receivable, and income taxes. These charges are incurred at corporate level rather than at Facility level. On the other hand, net income (loss) from continuing operations attributable to non-controlling interest represents the interest of the Facilities' non-controlling interest holders 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", Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures" and Sections 5 and 6 under the heading "Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA."*

Selected Financial Information for the Year Ended December 31, 2022 compared to the Year Ended December 31, 2021

For the year ended December 31, 2022, total revenue and other income was $414.4 million, an increase of 0.6% from $411.7 million for the same period in 2021, despite a $23.3 million decrease in government stimulus income in the current year driven partly by the reversal of PPP income of $12.3 million recognized in prior years. Facility service revenue of $424.6 million increased by 6.5% from $398.6 million for the same period in 2021, primarily due to higher surgical case volume, attributable to the Facilities' continued recovery from the negative impacts of the COVID-19 pandemic, along with the combined positive impact of case and payor mix. EBITDA was $55.7 million or 13.4% of total revenue and other income compared to $104.1 million or 25.3% of total revenue and other income for the same period last year, down mainly due to the non-cash impairment loss on goodwill, other intangibles and equipment of $16.5 million relating to the MFC Nueterra ASCs cash-generating unit in the current year ("Impairment Charge"), along with higher operating expenses and the reversal of government stimulus income, the combined impact of which exceeded the increase in facility service revenue. Excluding the impact of the current year Impairment Charge, Adjusted EBITDA was $72.3 million or 17.4% of total revenue and other income for the year ended December 31, 2022. Net income for the period was $12.3 million compared to net income of $46.5 million for the same period in 2021, with the decrease mostly attributable to the current year Impairment Charge, as well as lower income from operations at the Facilities, and the impairment loss on the loan receivable from UMASH, partly offset by lower finance costs driven by the change in the value of exchangeable interest liability versus the prior year (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability").

The Corporation generated cash available for distribution of Cdn$27.5 million, representing a decrease of Cdn$9.9 million or 26.5% from Cdn$37.4 million for the same period in the prior year. Distributions per common share increased between the years by Cdn$0.027 to Cdn$0.317, while the payout ratio was 33.8% for this period compared to 24.1% for the year ended December 31, 2021. 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 for the Year Ended December 31, 2021 compared to the Year Ended December 31, 2020

For the year ended December 31, 2021, total revenue and other income from continuing operations was $411.7 million, an increase of 5.6% from $389.9 million for the same period in 2020. Facility service revenue from continuing operations of $398.6 million increased by 9.6% from $363.9 million for the same period in 2020, primarily due to higher surgical case volume, attributable to the Facilities' ongoing recovery from the negative impacts of the COVID-19 pandemic which forced the Facilities to curtail their elective surgeries or temporarily cease operations from the second half of March 2020 to the first half of May 2020. EBITDA for the year ended December 31, 2021 was $104.1 million or 25.3% of total revenue and other income from continuing operations compared to $95.7 million or 24.5% of total revenue and other income from continuing operations for the same period in 2020, up mainly due to higher facility service revenue, driven by the rebound of case volumes, which exceeded the corresponding increase in operating expenses, partly offset by the decrease in government stimulus income. Excluding the impact of transaction costs on the sale of controlling interest in UMASH in the prior year, Adjusted EBITDA was $96.1 million or 24.7% of total revenue and other income from continuing operations for the year ended December 31, 2020. Net income for the period from continuing operations for the year ended December 31, 2021 was $46.5 million compared to net income of $37.4 million for the same period in 2020, with the increase mostly attributable to higher income from operations at the Facilities, and lower share of equity loss in associates, partly offset by higher interest expense on exchangeable interest liability. Net income for the year ended December 31, 2021 from discontinued operations, net of tax, was nil compared to $1.7 million for the same period in 2020, consisting of the net operating results of UMASH and RRI Mishawaka Hospital, LP.

The Corporation generated cash available for distribution of Cdn$37.4 million for the year ended December 31, 2021, representing a decrease of Cdn$2.6 million or 6.4% from Cdn$40.0 million for the same period in 2020. Distributions per common share increased between the years by Cdn$0.010 to Cdn$0.290, while the payout ratio was 24.1% for the year ended December 31, 2021 compared to 21.8% for the same period in 2020. 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".

5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

For the Three Months Ended December 31, 2022

The following table and discussion compare operating and financial results of the Corporation for the three months ended December 31, 2022 to the three months ended December 31, 2021.

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2022**	**2021**	**$ Change**	**% Change**
Revenue and other income				
Facility service revenue	119,434	110,677	8,757	7.9%
Government stimulus income (costs)	(12,335)	5,742	(18,077)	(314.8%)
	107,099	**116,419**	**(9,320)**	**(8.0%)**
Operating expenses				
Salaries and benefits	33,736	31,804	1,932	6.1%
Drugs and supplies	41,040	37,316	3,724	10.0%
General and administrative expenses	17,042	15,346	1,696	11.1%
Impairment of goodwill, other intangibles and equipment	16,549	-	16,549	100.0%
Depreciation of property and equipment	2,300	2,356	(56)	(2.4%)
Depreciation of right-of-use assets	2,898	2,545	353	13.9%
Amortization of other intangibles	161	1,550	(1,389)	(89.6%)
	113,726	**90,917**	**22,809**	**25.1%**
Income (loss) from operations	**(6,627)**	**25,502**	**(32,129)**	**(126.0%)**
Finance costs (income)				
Change in value of exchangeable interest liability	(11,036)	(635)	(10,401)	(1,638.0%)
Interest expense on exchangeable interest liability	1,944	2,152	(208)	(9.7%)
Interest expense, net of interest income	1,668	1,439	229	15.9%
Impairment gain on loan receivable	(1,394)	-	(1,394)	(100.0%)
Loss (gain) on foreign currency	(6)	47	(53)	(112.8%)
	(8,824)	**3,003**	**(11,827)**	**(393.8%)**
Share of equity loss (income) in associates	303	(12)	315	2,625.0%
Income before income taxes	**1,894**	**22,511**	**(20,617)**	**(91.6%)**
Income tax expense	5,231	1,608	3,623	225.3%
Net income (loss) for the period	**(3,337)**	**20,903**	**(24,240)**	**(116.0%)**
Attributable to:				
Owners of the Corporation	(2,274)	10,252	(12,526)	(122.2%)
Non-controlling interest	(1,063)	10,651	(11,714)	(110.0%)
Basic earnings (loss) per share attributable to owners of the Corporation	($0.08)	$0.33	(0.41)	(124.2%)
Fully diluted earnings (loss) per share attributable to owners of the Corporation	($0.26)	$0.32	(0.58)	(181.3%)
Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA (1)				
Net income (loss) for the period	(3,337)	20,903	(24,240)	(116.0%)
Income tax expense	5,231	1,608	3,623	225.3%
Share of equity loss (income) in associates	303	(12)	315	2,625.0%
Finance costs (income)	(8,824)	3,003	(11,827)	(393.8%)
Depreciation of property and equipment	2,300	2,356	(56)	(2.4%)
Depreciation of right-of-use assets	2,898	2,545	353	13.9%
Amortization of other intangibles	161	1,550	(1,389)	(89.6%)
EBITDA (1)	**(1,268)**	**31,953**	**(33,221)**	**(104.0%)**
Impairment of goodwill, other intangibles and equipment	16,549	-	16,549	100.0%
Adjusted EBITDA (1)	**15,281**	**31,953**	**(16,672)**	**(52.2%)**

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

Revenue and Other Income

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	**2022**	**2021**	**$ Change**	**% Change**
ASH	16,991	18,793	(1,802)	(9.6%)
OSH	19,430	21,154	(1,724)	(8.1%)
BHSH	27,005	26,822	183	0.7%
SFSH	37,169	38,409	(1,240)	(3.2%)
SCNC	1,391	2,775	(1,384)	(49.9%)
MFC Nueterra ASCs	5,113	8,466	(3,353)	(39.6%)
Total revenue and other income	**107,099**	**116,419**	**(9,320)**	**(8.0%)**

For the three months ended December 31, 2022, total revenue and other income decreased from the same period in 2021 by $9.3 million or 8.0%, while facility service revenue increased by $8.8 million or 7.9%. The decrease was primarily attributable to a reduction in government stimulus income ($18.1 million) driven by the reversal of PPP income recognized in prior years. This was partly offset by the combined positive impact of case and payor mix ($4.4 million), as well as higher surgical case volume at all SSHs ($3.4 million) attributable to the Facilities' continued recovery from the negative impacts of the COVID-19 pandemic, and ASH moving its anesthesia service and related billing in-house in the current year ($1.0 million).

Total surgical cases remained consistent with prior year, as observation cases increased by 46.0%, while outpatient cases decreased by 2.6% and inpatient cases decreased by 12.6%. Surgical case volume was up at all SSHs, while the ASCs experienced decreases. Surgical case volume increases by payor compared to the same period last year came predominantly from Medicare, which increased by 4.8%, while Blue Cross/Blue Shield decreased 2.5%. Pain cases were down by 7.1% compared to the same period last year.

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

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

- ASH's revenue decreased mainly due to a reduction in government stimulus income driven by the reversal of PPP income of $3.2 million recognized in prior years. This was partly offset by the impact of moving the anesthesia service and related billing in-house in the current year, as well as higher surgical case volume.

- OSH's revenue decreased mainly due to a reduction in government stimulus income driven by the reversal of PPP income of $3.3 million recognized in prior years. This was partly offset by the combined positive impact of case and payor mix resulting in higher reimbursements per surgical case, along with higher surgical case volume.

- BHSH's revenue increased mainly due to case mix, including a rise in high acuity orthopedic and spine cases, along with higher surgical case volume. This was mostly offset by a decrease in revenues from urgent care centers, and a decline in government stimulus income.

- SFSH's revenue decreased mainly due to a reduction in government stimulus income driven by the reversal of PPP income of $4.1 million recognized in prior years, as well as payor mix. This was partly offset by higher surgical case volume, and case mix, driven by orthopedic case growth.

- SCNC's revenue decreased mainly due to a reduction in government stimulus income driven by the reversal of PPP income of $0.8 million recognized in prior years, along with lower surgical case volume, and payor mix. This was partly offset by the positive impact of case mix, including higher acuity orthopedic cases.

- MFC Nueterra ASCs' revenue decreased mainly due to a reduction in government stimulus income driven partly by the reversal of PPP income of $0.9 million recognized in prior years, as well as lower surgical case volume, and a decrease in pain procedures. This was partly offset by the combined positive impact of case and payor mix.

Operating Expenses

For the three months ended December 31, 2022, operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses ("G&A"), impairment of goodwill, other intangibles and equipment, depreciation of property and equipment, depreciation of right-of-use assets, and amortization of other intangibles ("operating expenses"), increased by $22.8 million or 25.1% from the same period in the prior year to $113.7 million. As a percentage of total revenue and other income, operating expenses increased to 106.2% from 78.1% in the same period a year earlier.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2022**	**Percentage of Revenue**	**2021**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	16,715	98.4%	15,180	80.8%	1,535	10.1%
OSH	20,587	106.0%	17,990	85.0%	2,597	14.4%
BHSH	22,022	81.5%	20,635	76.9%	1,387	6.7%
SFSH	28,513	76.7%	24,956	65.0%	3,557	14.3%
SCNC	2,266	162.9%	2,156	77.7%	110	5.1%
MFC Nueterra ASCs	5,693	111.3%	5,945	70.2%	(252)	(4.2%)
Corporate	17,930	n/a	4,055	n/a	13,875	342.2%
Operating expenses	**113,726**	**106.2%**	**90,917**	**78.1%**	**22,809**	**25.1%**

Consolidated salaries and benefits increased by $1.9 million or 6.1%, primarily due to increases in both clinical and non-clinical wages and salaries ($1.8 million) as a result of annual merit increases, full-time equivalent ("FTE") increases, and market wage pressures due to the shortage of nurses, as well as the separation costs for the previous Chief Executive Officer in the current year ($1.8 million). This was partly offset by the forfeiture of stock options relating to the previous Chief Executive Officer and the former Chief Operating Officer in the current year ($0.8 million), along with lower incentive pay at corporate level ($0.6 million), and lower benefit costs from decreased health plan utilization ($0.4 million). As a percentage of total revenue and other income, consolidated salaries and benefits increased to 31.5% from 27.3% a year earlier.

Consolidated drugs and supplies increased by $3.7 million or 10.0%, primarily driven by case mix ($3.7 million), which included increased orthopedic and higher acuity spine cases, and the impact of higher surgical case volume at the SSHs ($1.2 million). This was partly offset by the reclassification of costs pertaining to SFSH's accountable care organization ("ACO") to G&A in the current year ($0.6 million), and higher vendor rebates ($0.5 million). As a percentage of total revenue and other income, the consolidated cost of drugs and supplies increased to 38.3% from 32.1% a year earlier.

Consolidated G&A increased by $1.7 million or 11.1%. The increase was mainly attributable to costs pertaining to SFSH's ACO in the current year ($1.4 million) mostly reclassified from drugs and supplies, the impact of ASH moving its anesthesia service and related billing in-house in the current year ($1.3 million), along with higher costs for billing fees ($0.4 million) and physician guarantees ($0.3 million). This was partly offset by lower corporate level costs related to share-based compensation plans driven by the larger decrease in the Corporation's share price in the current period as compared to the same period in 2021 ($0.9 million), as well as a reduction in lease related costs ($0.4 million), and the gain recorded on the sale of remaining equity in UMASH in the current year ($0.3 million). As a percentage of total revenue and other income, consolidated G&A increased to 15.9% from 13.2% a year earlier.

In the current year, the Corporation recorded an impairment charge of $16.5 million relating to the MFC Nueterra ASCs cash-generating unit (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 decreased by $0.1 million or 2.4%, mainly due to certain assets being fully depreciated, partly offset by the acquisition of fixed assets. As a percentage of total revenue and other income, consolidated depreciation of property and equipment increased to 2.1% from 2.0% a year earlier.

Consolidated depreciation of right-of-use assets increased by $0.4 million or 13.9%, mainly due to the addition of new leases, partly offset by the expiration and termination of certain leases. As a percentage of total revenue and other income, consolidated depreciation of right-of-use assets increased to 2.7% from 2.2% a year earlier.

Consolidated amortization of other intangibles decreased by $1.4 million or 89.6%, mainly due to most other intangibles being fully amortized. As a percentage of total revenue and other income, consolidated amortization of other intangibles decreased to 0.2% from 1.3% a year earlier.

Income (Loss) from Operations

Consolidated loss from operations for the three months ended December 31, 2022 of $6.6 million was $32.1 million or 126.0% lower than $25.5 million income in the prior year, representing negative 6.2% of revenue and other income, compared to positive 21.9% in the same period in 2021. The decrease is mainly due to the current year Impairment Charge, along with lower income from operations at the Facilities, as the reduction in government stimulus income, driven by the reversal of PPP income recognized in prior periods, and higher operating costs, surpassed facility service revenue increases. This was partly offset by lower corporate level costs related to amortization of other intangibles and share-based compensation plans.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	2022	Percentage of Revenue	2021	Percentage of Revenue	$ Change	% Change
ASH	276	1.6%	3,613	19.2%	(3,337)	(92.4%)
OSH	(1,157)	(6.0%)	3,164	15.0%	(4,321)	(136.6%)
BHSH	4,983	18.5%	6,187	23.1%	(1,204)	(19.5%)
SFSH	8,656	23.3%	13,453	35.0%	(4,797)	(35.7%)
SCNC	(875)	(62.9%)	619	22.3%	(1,494)	(241.4%)
MFC Nueterra ASCs	(580)	(11.3%)	2,521	29.8%	(3,101)	(123.0%)
Corporate	(17,930)	n/a	(4,055)	n/a	(13,875)	(342.2%)
Income (loss) from operations	**(6,627)**	**(6.2%)**	**25,502**	**21.9%**	**(32,129)**	**(126.0%)**

Finance Costs

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 change in value of exchangeable interest liability decreased by $10.4 million, primarily driven by the larger decrease in the price of the Corporation's common shares in the current period as compared to the same period in 2021.

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, 2022**	**September 30, 2022** *Unaudited*	**Change**	**December 31, 2021**	**September 30, 2021** *Unaudited*	**Change**
Number of common shares to be issued for exchangeable interest liability	6,297,268	6,238,440	58,828	6,161,517	6,017,687	143,830
Closing price of the Corporation's common shares	C$8.04	C$10.73	(C$2.69)	C$9.35	C$9.74	(C$0.39)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3554	$1.3833	($0.0279)	$1.2640	$1.2683	($0.0043)
Exchangeable interest liability	**37,354**	**48,390**	**(11,036)**	**45,578**	**46,213**	**(635)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $0.2 million, which was primarily driven by the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income increased by $0.2 million mainly due to higher interest rates as compared to the same period last year, along with higher credit facility interest expense at corporate level due to the higher outstanding balance, partly offset by lower credit facility stand-by fees at corporate level due to a lower balance available, and lower interest expense on lease liabilities.

Impairment Gain on Loan Receivable

The Loan Receivable was fully impaired prior to the current period, therefore an impairment gain on loan receivable of $1.4 million was recorded in the current period based on the full and final settlement of the Loan Receivable for proceeds of the same amount (refer to Section 13 under the heading "Allowance for Loan Receivable" for a discussion on the calculation methodology).

Foreign Currency

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares are made in Canadian dollars. Foreign currency gains increased marginally due to the relative change in foreign exchange rates.

Share of Equity Loss (Income) in Associates

The Corporation's share of equity loss in associates accounted for using the equity method increased by $0.3 million due to an increase in investment in St. Luke's Surgery Center of Chesterfield, LLC ("St. Luke's ASC"), all of which was recognized as a loss because the investment balance was written down to nil at the start of prior year.

Income Tax

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

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	**2022**	**2021**	**$ Change**	**% Change**
Current income tax expense	2,216	415	1,801	434.0%
Deferred income tax expense	3,015	1,193	1,822	152.7%
Income tax expense	**5,231**	**1,608**	**3,623**	**225.3%**

The increase in current income tax expense versus last year was primarily due to the impact of tax losses from the Corporation's equity investments in the prior year. The increase in deferred income tax expense versus prior year was mainly due to prior year's increased deductibility of interest expense previously deferred, stemming from the CARES Act, as well as the impact of the change in exchangeable interest liability.

Net Income (Loss)

The $24.2 million decrease in net income for the period was mainly attributable to the current year Impairment Charge, along with lower income from operations at the Facilities, and higher income tax expense, partly offset by lower finance costs, driven by the change in the value of exchangeable interest liability versus the prior year (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability").

EBITDA

Negative EBITDA of $1.3 million decreased by $33.3 million from positive $32.0 million recorded a year earlier, representing negative 1.2% of revenue and other income compared to positive 27.4% a year earlier, mainly driven by the current year Impairment Charge, as well as lower EBITDA at all Facilities, as the combined impact of the reduction in government stimulus income, driven by the reversal of PPP income recognized in prior periods, and higher operating expenses, exceeded the increase in facility service revenue. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA".

Adjusted EBITDA

Adjusted EBITDA of $15.3 million for the three months ended December 31, 2022 decreased from $32.0 million in the same period a year earlier, representing 14.3% of revenue and other income, versus 27.4% a year earlier. For a reconciliation of Adjusted EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income for the period to EBITDA and Adjusted EBITDA."

For the Year Ended December 31, 2022

The following table and discussion compare operating and financial results of the Corporation for the year ended December 31, 2022 to the year ended December 31, 2021.

	Year Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2022**	**2021**	**$ Change**	**% Change**
Revenue and other income				
Facility service revenue	424,551	398,633	25,918	6.5%
Government stimulus income (costs)	(10,162)	13,099	(23,261)	(177.6%)
	414,389	**411,732**	**2,657**	**0.6%**
Operating expenses				
Salaries and benefits	127,352	119,901	7,451	6.2%
Drugs and supplies	143,925	130,027	13,898	10.7%
General and administrative expenses	70,861	57,677	13,184	22.9%
Impairment of goodwill, other intangibles and equipment	16,549	-	16,549	100.0%
Depreciation of property and equipment	9,288	9,366	(78)	(0.8%)
Depreciation of right-of-use assets	10,837	10,172	665	6.5%
Amortization of other intangibles	638	7,231	(6,593)	(91.2%)
	379,450	**334,374**	**45,076**	**13.5%**
Income from operations	**34,939**	**77,358**	**(42,419)**	**(54.8%)**
Finance costs				
Change in value of exchangeable interest liability	(8,224)	11,539	(19,763)	(171.3%)
Interest expense on exchangeable interest liability	7,362	8,707	(1,345)	(15.4%)
Interest expense, net of interest income	5,731	6,064	(333)	(5.5%)
Impairment loss on loan receivable	11,990	-	11,990	100.0%
Loss on foreign currency	3	34	(31)	(91.2%)
	16,862	**26,344**	**(9,482)**	**(36.0%)**
Share of equity loss in associates	574	125	449	359.2%
Income before income taxes	**17,503**	**50,889**	**(33,386)**	**(65.6%)**
Income tax expense	5,208	4,396	812	18.5%
Net income for the period	**12,295**	**46,493**	**(34,198)**	**(73.6%)**
Attributable to:				
Owners of the Corporation	(4,405)	15,500	(19,905)	(128.4%)
Non-controlling interest	16,700	30,993	(14,293)	(46.1%)
Basic earnings (loss) per share attributable to owners of the Corporation	($0.15)	$0.50	(0.65)	(130.0%)
Fully diluted earnings (loss) per share attributable to owners of the Corporation	($0.15)	$0.50	(0.65)	(130.0%)
Reconciliation of net income for the period to EBITDA and Adjusted EBITDA [(1)]				
Net income for the period	12,295	46,493	(34,198)	(73.6%)
Income tax expense	5,208	4,396	812	18.5%
Share of equity loss in associates	574	125	449	359.2%
Finance costs	16,862	26,344	(9,482)	(36.0%)
Depreciation of property and equipment	9,288	9,366	(78)	(0.8%)
Depreciation of right-of-use assets	10,837	10,172	665	6.5%
Amortization of other intangibles	638	7,231	(6,593)	(91.2%)
EBITDA [(1)]	**55,702**	**104,127**	**(48,425)**	**(46.5%)**
Impairment of goodwill, other intangibles and equipment	16,549	-	16,549	100.0%
Adjusted EBITDA [(1)]	**72,251**	**104,127**	**(31,876)**	**(30.6%)**

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

Revenue and Other Income

In thousands of U.S. dollars	Year Ended December 31, 2022	2021	$ Change	% Change
ASH	73,230	71,085	2,145	3.0%
OSH	75,749	78,716	(2,967)	(3.8%)
BHSH	98,314	98,647	(333)	(0.3%)
SFSH	134,132	128,619	5,513	4.3%
SCNC	9,617	9,404	213	2.3%
MFC Nueterra ASCs	23,347	25,261	(1,914)	(7.6%)
Total revenue and other income	**414,389**	**411,732**	**2,657**	**0.6%**

For the year ended December 31, 2022, total revenue and other income increased from the same period in 2021 by $2.7 million or 0.6%. Facility service revenue increased by $25.9 million or 6.5%. The increase was primarily due to higher surgical case volume ($15.0 million) attributable to the Facilities' continued recovery from the negative impacts of the COVID-19 pandemic, along with the combined positive impact of case and payor mix ($6.7 million), the impact of ASH moving its anesthesia service and related billing in-house in the current year ($4.0 million), and an increase in pain procedures ($1.3 million). This was mostly offset by a reduction in government stimulus income ($23.3 million) driven partly by the reversal of PPP income recognized in prior years, and the shutdown of one of BHSH's urgent care centers in December 2021 ($1.1 million).

Total surgical cases increased by 3.5%, as outpatient cases increased by 3.2% and observation cases increased by 42.4%, while inpatient cases decreased by 11.8%. Surgical case volume was up at certain Facilities, led by SFSH, while MFC Nueterra ASCs experienced the largest decrease. Surgical case volume increases by payor over the same period last year came predominantly from Medicare and Blue Cross/Blue Shield, which increased by 6.7% and 5.8%, respectively. Pain cases were up by 8.5% compared to the same period last year.

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

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

- ASH's revenue increased mainly due to the impact of moving the anesthesia service and related billing in-house in the current year, along with higher surgical case volume, and an increase in pain procedures. This was partly offset by a reduction in government stimulus income driven by the reversal of PPP income of $3.2 million recognized in prior years.

- OSH's revenue decreased mainly due to a reduction in government stimulus income driven by the reversal of PPP income of $3.3 million recognized in prior years, and lower surgical case volume. This was partly offset by the combined positive impact of case and payor mix resulting in higher reimbursements per surgical case, along with an increase in pain procedures.

- BHSH's revenue decreased mainly due to a decline in government stimulus income, along with the shutdown of one of BHSH's urgent care centers in December 2021, and lower revenues from the remaining urgent care centers. This was mostly offset by improved case mix, including a rise in high acuity orthopedic and spine cases, as well as higher surgical case volume.

- SFSH's revenue increased mainly due to higher surgical case volume. This was partly offset by a reduction in government stimulus income driven by the reversal of PPP income of $4.1 million recognized in prior years, as well as case mix, caused by a shift to outpatient cases, despite orthopedic case growth.

- SCNC's revenue increased mainly due to the positive impact of case mix, including higher acuity orthopedic cases. This was partly offset by a reduction in government stimulus income driven by the reversal of PPP income of $0.8 million recognized in prior years, along with lower surgical case volume.

- MFC Nueterra ASCs' revenue decreased mainly due to a reduction in government stimulus income driven partly by the reversal of PPP income of $0.9 million recognized in prior years, as well as lower surgical case volume. This was partly offset by the combined positive impact of case and payor mix.

Operating Expenses

For the year ended December 31, 2022, operating expenses increased by $45.1 million or 13.5% from the same period in the prior year to $379.5 million. As a percentage of total revenue and other income, operating expenses increased to 91.6% from 81.2% in the same period a year earlier.

	Year Ended December 31,					
In thousands of U.S. dollars	**2022**	**Percentage of Revenue**	**2021**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	65,009	88.8%	55,703	78.4%	9,306	16.7%
OSH	71,807	94.8%	70,800	89.9%	1,007	1.4%
BHSH	83,189	84.6%	71,914	72.9%	11,275	15.7%
SFSH	98,882	73.7%	88,127	68.5%	10,755	12.2%
SCNC	9,074	94.4%	8,488	90.3%	586	6.9%
MFC Nueterra ASCs	22,776	97.6%	20,786	82.3%	1,990	9.6%
Corporate	28,713	n/a	18,556	n/a	10,157	54.7%
Operating expenses	**379,450**	**91.6%**	**334,374**	**81.2%**	**45,076**	**13.5%**

Consolidated salaries and benefits increased by $7.5 million or 6.2%, primarily due to increases in both clinical and non-clinical wages and salaries ($7.9 million) as a result of annual merit increases, FTE increases, and market wage pressures due to the shortage of nurses, as well as the separation costs for the previous Chief Executive Officer in the current year ($1.8 million), and higher vesting costs for share-based compensation ($0.6 million). This was partly offset by the forfeiture of stock options relating to the previous Chief Executive Officer and the former Chief Operating Officer in the current year ($0.8 million), along with lower benefit costs from decreased health plan utilization ($0.8 million), the shutdown of one of BHSH's urgent care centers in December 2021 ($0.7 million), and lower incentive pay at corporate level ($0.5 million). As a percentage of total revenue and other income, consolidated salaries and benefits increased to 30.7% from 29.1% a year earlier.

Consolidated drugs and supplies increased by $13.9 million or 10.7%, primarily driven by case mix ($12.5 million), which included increased orthopedic and higher acuity spine cases, along with the impact of higher surgical case volume ($3.9 million), and a prior year gain recorded on the exchange of implant inventory as part of a new vendor agreement by BHSH ($2.0 million). This was partly offset by the reclassification of costs pertaining to SFSH's ACO to G&A in the current year ($2.5 million), higher vendor rebates ($1.8 million), and the shutdown of one of BHSH's urgent care centers in December 2021 ($0.2 million). As a percentage of total revenue and other income, the consolidated cost of drugs and supplies increased to 34.7% from 31.6% a year earlier.

Consolidated G&A increased by $13.2 million or 22.9%. The increase in G&A was mainly attributable to the impact of ASH moving its anesthesia service and related billing in-house in the current year ($5.2 million), costs pertaining to SFSH's ACO in the current year ($3.8 million) mostly reclassified from drugs and supplies, along with higher costs for administrative and facility related expenses ($3.0 million), billing and contracted services ($1.2 million), physician guarantees ($1.0 million), professional fees ($0.9 million), IT ($0.5 million), and marketing ($0.2 million). This was partly offset by lower corporate level costs related to share-based compensation plans driven by a decrease in the Corporation's share price in the current year as compared to an increase in the same period in 2021 ($1.8 million), along with the shutdown of one of BHSH's urgent care centers in December 2021 ($0.5 million), and the gain recorded on the sale of remaining equity in UMASH in the current year ($0.3 million). As a percentage of total revenue and other income, consolidated G&A increased to 17.1% from 14.0% a year earlier.

In the current year, the Corporation recorded an impairment charge of $16.5 million relating to the MFC Nueterra ASCs cash-generating unit (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 decreased by $0.1 million or 0.8%, mainly due to certain assets being fully depreciated, partly offset by the acquisition of fixed assets. As a percentage of total revenue and other income, consolidated depreciation of property and equipment decreased to 2.2% from 2.3% a year earlier.

Consolidated depreciation of right-of-use assets increased by $0.7 million or 6.5%, mainly due to the addition of new leases, partly offset by the expiration and termination of certain leases. As a percentage of total revenue and other income, consolidated depreciation of right-of-use assets increased to 2.6% from 2.5% a year earlier.

Consolidated amortization of other intangibles decreased by $6.6 million or 91.2%, mainly due to most other intangibles being fully amortized. As a percentage of total revenue and other income, consolidated amortization of other intangibles decreased to 0.2% from 1.8% a year earlier.

Income from Operations

Consolidated income from operations for the year ended December 31, 2022 of $34.9 million was $42.4 million or 54.8% lower than consolidated income from operations of $77.4 million, recorded in the same period a year earlier, representing 8.4% of revenue and other income, compared to 18.8% in the same period in 2021. The decrease is mainly due to the current year Impairment Charge, along with lower income from operations at the Facilities, as the reduction in government stimulus income, driven partly by the reversal of PPP income recognized in prior periods, and higher operating costs, surpassed facility service revenue increases. This was partly offset by lower corporate level costs related to amortization of other intangibles and share-based compensation plans.

	Year Ended December 31,					
In thousands of U.S. dollars	**2022**	**Percentage of Revenue**	**2021**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	8,221	11.2%	15,382	21.6%	(7,161)	(46.6%)
OSH	3,942	5.2%	7,916	10.1%	(3,974)	(50.2%)
BHSH	15,125	15.4%	26,733	27.1%	(11,608)	(43.4%)
SFSH	35,250	26.3%	40,492	31.5%	(5,242)	(12.9%)
SCNC	543	5.6%	916	9.7%	(373)	(40.7%)
MFC Nueterra ASCs	571	2.4%	4,475	17.7%	(3,904)	(87.2%)
Corporate	(28,713)	n/a	(18,556)	n/a	(10,157)	(54.7%)
Income from operations	**34,939**	**8.4%**	**77,358**	**18.8%**	**(42,419)**	**(54.8%)**

Finance Costs

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 change in value of exchangeable interest liability decreased by $19.8 million, primarily driven by the decrease in the price of the Corporation's common shares in the current year as compared to an increase in the same period in 2021.

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, 2022**	**December 31, 2021**	**Change**	**December 31, 2021**	**December 31, 2020**	**Change**
Number of common shares to be issued for exchangeable interest liability	6,297,268	6,161,517	135,751	6,161,517	6,157,396	4,121
Closing price of the Corporation's common shares	C$8.04	C$9.35	(C$1.31)	C$9.35	C$7.04	C$2.31
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3554	$1.2640	$0.0914	$1.2640	$1.2735	($0.0095)
Exchangeable interest liability	**37,354**	**45,578**	**(8,224)**	**45,578**	**34,039**	**11,539**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $1.3 million, which was primarily driven by the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income decreased by $0.3 million mainly due to lower interest expense on lease liabilities, higher interest income at corporate level, and lower credit facility stand-by fees at corporate level due to a lower balance available, partly offset by higher credit facility interest expense at corporate level due to the higher outstanding balance and interest rate.

Impairment Loss on Loan Receivable

Impairment loss on loan receivable of $12.0 million was recorded in the current year based on the full and final settlement of the Loan Receivable for proceeds of $1.4 million (refer to Section 13 under the heading "Allowance for Loan Receivable" for a discussion on the calculation methodology).

Foreign Currency

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses are made in Canadian dollars. Foreign currency loss decreased marginally due to the relative change in foreign exchange rates.

Share of Equity Loss in Associates

The Corporation's share of equity loss in associates accounted for using the equity method increased by $0.4 million, mainly due to an increase in investment in St. Luke's ASC, all of which was recognized as a loss because the investment balance was written down to nil at the start of prior year.

Income Tax

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

	Year Ended December 31,			
In thousands of U.S. dollars	**2022**	**2021**	**$ Change**	**% Change**
Current income tax expense	3,082	2,623	459	17.5%
Deferred income tax expense	2,126	1,773	353	19.9%
Income tax expense	**5,208**	**4,396**	**812**	**18.5%**

The increase in current income tax expense versus last year was primarily due to increased deductibility of previously deferred interest expense in the prior year, under measures introduced as part of the CARES Act. The increase in deferred income tax expense versus prior year was mainly due to reductions in Canadian deferred tax assets pertaining to deferred compensation.

Net Income

The $34.2 million decrease in net income for the period was mainly attributable to the current year Impairment Charge, the impairment loss on the loan receivable from UMASH, as well as lower income from operations at the Facilities, partly offset by lower finance costs, driven by the change in the value of exchangeable interest liability versus the prior year (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability").

EBITDA

EBITDA of $55.7 million decreased by $48.4 million from $104.1 million recorded a year earlier, representing 13.4% of revenue and other income compared to 25.3% a year earlier, mainly driven by the current year Impairment Charge, as well as lower EBITDA at all Facilities, as the combined impact of the reduction in government stimulus income, driven partly by the reversal of PPP income recognized in prior periods, and higher operating expenses, exceeded the increase in facility service revenue. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income for the period to EBITDA and Adjusted EBITDA."

Adjusted EBITDA

Adjusted EBITDA of $72.3 million for the year ended December 31, 2022 decreased from $104.1 million in the same period a year earlier, representing 17.4% of revenue and other income, versus 25.3% a year earlier. For a reconciliation of Adjusted EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income for the period to EBITDA and Adjusted EBITDA."

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results

Unaudited	2022				2021			
In thousands of U.S. dollars, except per share amounts	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue and other income								
Facility service revenue	119,434	102,167	102,162	100,788	110,677	96,388	97,572	93,996
Government stimulus income (costs)	(12,335)	-	363	1,810	5,742	2,652	572	4,133
	107,099	**102,167**	**102,525**	**102,598**	**116,419**	**99,040**	**98,144**	**98,129**
Operating expenses								
Salaries and benefits	33,736	32,370	31,347	29,899	31,804	29,978	29,066	29,053
Drugs and supplies	41,040	35,053	34,076	33,756	37,316	31,057	31,561	30,093
General and administrative expenses	17,042	19,134	15,559	19,126	15,346	14,661	13,819	13,851
Impairment of goodwill, other intangibles and equipment	16,549	-	-	-	-	-	-	-
Depreciation of property and equipment	2,300	2,328	2,315	2,345	2,356	2,325	2,324	2,361
Depreciation of right-of-use assets	2,898	2,696	2,608	2,635	2,545	2,549	2,539	2,539
Amortization of other intangibles	161	161	159	157	1,550	1,915	1,893	1,873
	113,726	**91,742**	**86,064**	**87,918**	**90,917**	**82,485**	**81,202**	**79,770**
Income (loss) from operations	**(6,627)**	**10,425**	**16,461**	**14,680**	**25,502**	**16,555**	**16,942**	**18,359**
Finance costs (income)								
Change in value of exchangeable interest liability	(11,036)	6,914	(14,405)	10,303	(635)	12,559	(2,333)	1,948
Interest expense on exchangeable interest liability	1,944	1,515	1,712	2,191	2,152	1,711	2,145	2,699
Interest expense, net of interest income	1,668	1,310	1,352	1,401	1,439	1,468	1,615	1,542
Impairment loss (gain) on loan receivable	(1,394)	9,394	-	3,990	-	-	-	-
Loss (gain) on foreign currency	(6)	(4)	3	10	47	(11)	(4)	2
	(8,824)	**19,129**	**(11,338)**	**17,895**	**3,003**	**15,727**	**1,423**	**6,191**
Share of equity loss (income) in associates	303	5	272	(6)	(12)	(5)	100	42
Income (loss) before income taxes	**1,894**	**(8,709)**	**27,527**	**(3,209)**	**22,511**	**833**	**15,419**	**12,126**
Income tax expense (recovery)	5,231	(3,213)	5,284	(2,094)	1,608	(2,594)	3,563	1,819
Net income (loss) for the period	**(3,337)**	**(5,496)**	**22,243**	**(1,115)**	**20,903**	**3,427**	**11,856**	**10,307**
Attributable to:								
Owners of the Corporation	(2,274)	(10,453)	16,183	(7,861)	10,252	(3,545)	5,321	3,472
Non-controlling interest	(1,063)	4,957	6,060	6,746	10,651	6,972	6,535	6,835
Earnings (loss) per share attributable to owners of the Corporation:								
Basic	($0.08)	($0.35)	$0.54	($0.26)	$0.33	($0.11)	$0.17	$0.11
Fully diluted	($0.26)	($0.35)	$0.19	($0.26)	$0.32	($0.11)	$0.15	$0.11
Reconciliation of net income (loss) for the period to EBITDA and Adjusted EBITDA [(1)]								
Net income (loss) for the period	(3,337)	(5,496)	22,243	(1,115)	20,903	3,427	11,856	10,307
Income tax expense (recovery)	5,231	(3,213)	5,284	(2,094)	1,608	(2,594)	3,563	1,819
Share of equity loss (income) in associates	303	5	272	(6)	(12)	(5)	100	42
Finance costs (income)	(8,824)	19,129	(11,338)	17,895	3,003	15,727	1,423	6,191
Depreciation of property and equipment	2,300	2,328	2,315	2,345	2,356	2,325	2,324	2,361
Depreciation of right-of-use assets	2,898	2,696	2,608	2,635	2,545	2,549	2,539	2,539
Amortization of other intangibles	161	161	159	157	1,550	1,915	1,893	1,873
EBITDA [(1)]	**(1,268)**	**15,610**	**21,543**	**19,817**	**31,953**	**23,344**	**23,698**	**25,132**
Impairment of goodwill, other intangibles and equipment	16,549	-	-	-	-	-	-	-
Adjusted EBITDA [(1)]	**15,281**	**15,610**	**21,543**	**19,817**	**31,953**	**23,344**	**23,698**	**25,132**

[(1)] *Non-IFRS financial measures. 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:

- Facility service 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, facility service 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.

- The COVID-19 outbreak began to impact the Corporation's and Facilities' operations in the latter half of March 2020, with impacts of varying severity within the communities and states that the Facilities serve. All Facilities were impacted by the pandemic as elective cases were restricted, either voluntarily or by U.S. state or local government mandate. Both such restrictions were lifted by mid-May 2020, but there is no certainty that similar restrictions will not be re-instated if the pandemic continues.
- As part of the CARES Act and other stimulus legislation in response to the COVID-19 pandemic, the Facilities received financial assistance and recorded some of the funds as government stimulus income during 2020, 2021 and 2022. There is no certainty that such programs will be extended or replaced if the pandemic continues.
- The changes in operating expenses are generally consistent with fluctuations in case volumes and case mix. Operating expenses have also been impacted by costs related to an ACO previously established by SFSH, as well as a management agreement for the orthopedic service line that SFSH entered into. The previous ACO ended December 31, 2021, and SFSH established a new ACO starting January 1, 2022, to replace it (refer to Section 12 of this MD&A under heading "Related Party Transactions").
- In addition, revenue and operating expenses have been impacted by sales of assets and non-controlling interests in 2021 and 2022.
- In December 2021, the operations of an urgent care center affiliated with BHSH, located in Spearfish, South Dakota, were shut down. The Corporation recorded a gain on termination of the urgent care's premises lease as a result of its closure.
- Due to the underperformance at certain MFC Nueterra ASCs, management assessed and recorded an impairment of goodwill, other intangibles and equipment in 2022.
- 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. During 2021 and 2022, changes in the market price of the Corporation's common shares mainly drove the fluctuations in the change in value of exchangeable interest liability.
- 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 changes in impairment loss (gain) on loan receivable are a result of re-evaluating the impairment loss allowance reserved on the loan receivable from UMASH at the end of each reporting period. In December 2022, the Loan Receivable was settled in full.
- The fluctuations in 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, taxable (deductible) foreign exchange gains (losses), and temporary beneficial tax provisions under the CARES Act, which may not be extended for future periods. 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 pursuant to the recent U.S. federal tax law changes, and the impact of measures introduced by the CARES Act.

7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

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

		Three Months Ended December 31, *Unaudited*		Year Ended December 31,	
In thousands of U.S. dollars, except as indicated otherwise		**2022 $**	**2021 $**	**2022 $**	**2021 $**
NET CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**17,598**	**23,576**	**57,013**	**75,642**
Non-controlling interest in cash flows of the Facilities [(1)(2)]		(10,271)	(13,118)	(33,110)	(40,489)
Interest expense on exchangeable interest liability [(3)]		1,944	2,152	7,362	8,707
Payment of lease liabilities [(4)]		(3,364)	(2,936)	(12,496)	(11,943)
Maintenance capital expenditures [(5)]		(1,513)	(1,255)	(4,470)	(4,572)
Difference between accrual-based amounts and actual cash flows related to interest and taxes [(6)]		(3,157)	403	(5,626)	1,837
Net changes in non-cash operating working capital [(7)(8)]		6,858	4,770	18,546	10,445
Share-based compensation [(9)]		805	(54)	667	(292)
Repayments of notes payable by the Facilities [(10)]		(1,609)	(1,914)	(6,726)	(9,460)
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**7,291**	**11,624**	**21,160**	**29,875**
	CDN	**9,900**	**14,650**	**27,536**	**37,448**
DISTRIBUTIONS	**CDN**	**2,086**	**2,479**	**9,302**	**9,011**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE [(11)]	**CDN**	**$0.364**	**$0.472**	**$0.938**	**$1.204**
TOTAL DISTRIBUTIONS PER COMMON SHARE [(11)]	**CDN**	**$0.077**	**$0.080**	**$0.317**	**$0.290**
PAYOUT RATIO		**21.2%**	**16.9%**	**33.8%**	**24.1%**
Average exchange rate of Cdn$ to US$ for the period		1.3578	1.2603	1.3013	1.2535
Weighted average number of common shares outstanding		27,226,320	31,053,207	29,366,985	31,092,887

(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. This is calculated by multiplying the distributable cash flows from each Facility with the respective ownership share of the non-controlling interest holders.*

(2) *Excludes the non-cash impact of PPP income reversed from government stimulus income of $5.5 million, which represents the non-controlling interest share, for the three months and year ended December 31, 2022, for comparability with prior periods.*

(3) *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. It is included in the Corporation's consolidated statements of income and comprehensive income.*

(4) *Payment of lease liabilities represents rent payments on principal portions of lease liabilities and is deducted in determining cash available for distribution as this is a cash item included in cash flows from financing activities in the Corporation's consolidated statements of cash flows.*

(5) *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. Maintenance capital expenditures, together with major capital expenditures, comprise the purchase of property and equipment, which is included in cash flows from investing activities in the Corporation's consolidated statements of cash flows.*

(6) *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, and income and withholding taxes is included in the table above.*

(7) *While changes in non-cash operating working capital are included in the calculation of net cash provided by operating activities in the Corporation's consolidated statements of cash flows, 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.*

(8) *As presented in the Corporation's consolidated statements of cash flows, excluding the non-cash impact of PPP income reversed from government stimulus income of $12.3 million for the three months and year ended December 31, 2022, for comparability with prior periods.*

(9) *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. It is included in the Corporation's consolidated statements of changes in equity.*

(10) *Repayments of notes payable by the Facilities, comprising of interest and principal repayments on non-revolving debt obligations, reflects contractual obligations of the Facilities and is deducted in the calculation of cash available for distribution. It is included in cash flows from financing activities in the Corporation's consolidated statements of cash flows.*

(11) *Calculated based on the weighted average number of common shares outstanding.*

Cash available for distribution in the three months ended December 31, 2022 (Cdn$9.9 million) decreased by Cdn$4.8 million compared to the cash available for distribution the same period last year (Cdn$14.7 million). On a per common share basis, cash available for distribution of Cdn$0.364 decreased by Cdn$0.108, or 22.9% from the same period last year of Cdn$0.472. The distributions per common share of Cdn$0.077 decreased by Cdn$0.003, or 3.8% from the same period last year of Cdn$0.080, resulting in a payout ratio of 21.2% as compared to a payout ratio of 16.9% in the same period in 2021.

Cash available for distribution in the year ended December 31, 2022 (Cdn$27.5 million) decreased by Cdn$9.9 million compared to the cash available for distribution the same period last year (Cdn$37.4 million). On a per common share basis, cash available for distribution of Cdn$0.938 decreased by Cdn$0.266, or 22.1% from the same period last year of Cdn$1.204. The distributions per common share of Cdn$0.317 increased by Cdn$0.027, or 9.3% from the same period last year of Cdn$0.290, resulting in a payout ratio of 33.8% as compared to a payout ratio of 24.1% in the same period in 2021.

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, *Unaudited*		**Year Ended December 31,**	
In thousands of U.S. dollars	**2022 $**	**2021 $**	**2022 $**	**2021 $**
Cash flows from the Facilities:				
Income before interest expense, depreciation and amortization (1)	28,756	34,365	95,749	115,201
Debt service costs:				
Interest	(592)	(379)	(2,020)	(1,952)
Repayment of non-revolving debt	(1,609)	(1,914)	(6,726)	(9,460)
Maintenance capital expenditures	(1,513)	(1,255)	(4,470)	(4,572)
Payment of lease liabilities	(3,326)	(2,886)	(12,329)	(11,738)
Non-cash loss (gain)	(4)	87	(9)	(1,903)
Cash available for distribution at Facility level	21,712	28,018	70,195	85,576
Non-controlling interest in cash available for distribution at Facility level (2)	(10,271)	(13,118)	(33,110)	(40,489)
Corporation's share of the cash available for distribution at Facility level	**11,441**	**14,900**	**37,085**	**45,087**
Corporate expenses	(1,489)	(2,736)	(12,054)	(12,021)
Interest on corporate credit facility	(445)	(125)	(789)	(568)
Recoveries of (provision for) current income taxes	(2,216)	(415)	(3,082)	(2,623)
Cash available for distribution	**7,291**	**11,624**	**21,160**	**29,875**

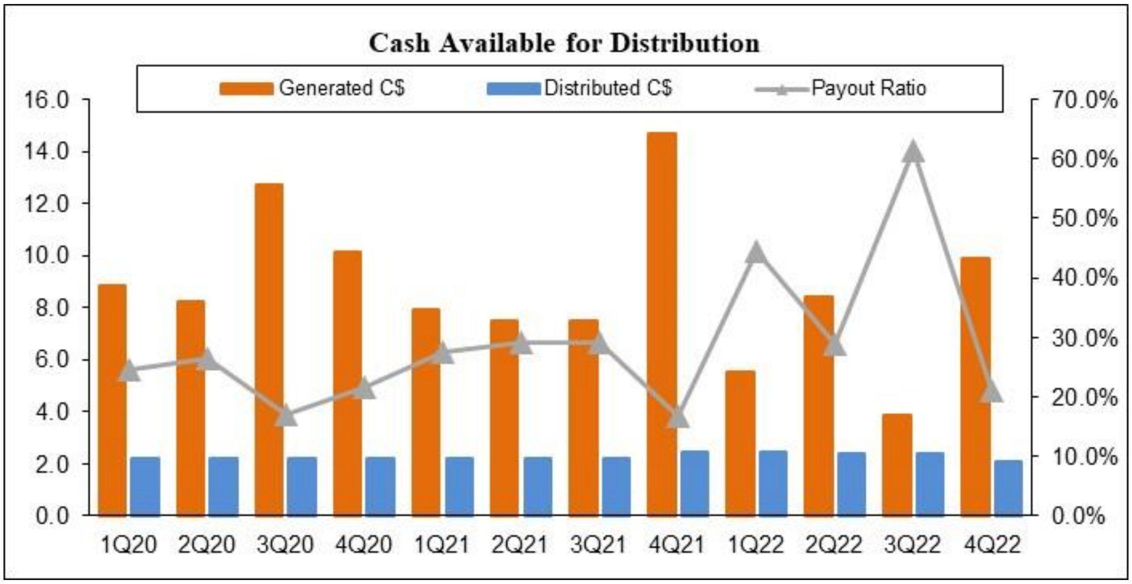
(1) *Excludes the non-cash impact of PPP income reversed from government stimulus income of $12.3 million for the three months and year ended December 31, 2022, for comparability with prior periods.*

(2) *Excludes the non-cash impact of PPP income reversed from government stimulus income of $5.5 million, which represents the non-controlling interest share, for the three months and year ended December 31, 2022, for comparability with prior periods.*

Non-controlling interest in cash flows of the Facilities is deducted in determining Compared to the three months ended December 31, 2021, the cash available for distribution in U.S. dollars for the same period this year decreased by $4.3 million or 37.3% mainly due to lower income from Facilities, higher payment of lease liabilities at the Facilities, and higher current taxes, partly offset by lower corporate expenses.

Compared to the year ended December 31, 2021, the cash available for distribution in U.S. dollars for the same period this year decreased by $8.7 million or 29.2% mainly due to lower income from Facilities, higher payment of lease liabilities at the Facilities, and higher current taxes, partly offset by lower debt service costs at the Facilities.

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 COVID-19 pandemic, the U.S. and local economies, ongoing changes in the healthcare industry, management strategies of the Corporation, and U.S. tax reform. 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 ongoing COVID-19 pandemic, the economy, the healthcare industry, management strategies of the Corporation, and U.S. tax reform.

COVID-19

Since the outbreak of the COVID-19 pandemic, the landscape for the healthcare industry has changed significantly. While the restrictions initially placed on elective procedures had since been lifted, it is uncertain whether the local state authorities will impose such restrictions again in the future if the pandemic continues. As the Facilities continue working toward a return to their normal operations, the continued evolution of the virus, the overall vaccine acceptance rate among patients, physicians, and staff, the efficacy of the COVID-19 vaccines against the virus and its variants, and the pace of development of effective therapeutics, will greatly influence the progress to return to normal operations.

Management believes that the COVID-19 pandemic may continue to impact the Facilities' operations and financial results until the effects of the pandemic have fully subsided. On January 30, 2023, the current U.S. administration announced that the COVID-19 Public Health Emergency is unlikely to continue past May 11, 2023. Despite this, the full impact of the COVID-19 pandemic remains unknown, as is the efficacy of the U.S. government interventions, the Corporation's business continuity plan and other mitigating measures. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results of the Corporation and Facilities in future periods.

The Economy

Management's expectations could be impacted by the general state of the U.S. economy, which is experiencing disruptions stemming from the COVID-19 pandemic and geopolitical pressures, including the impact on supply chain, with ongoing delays and increased lead times in acquiring supplies since the onset of the pandemic. This has recently been compounded by inflationary pressures which are driving up operating costs, and higher borrowing costs from rising interest rates, which are increasing the risk of a potential recession and a corresponding impact on elective surgery volume. 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 U.S. 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; 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.

Changes in the U.S. federal government's political priorities could have potential implications on the healthcare industry, including but not limited to the government response to COVID-19 and potential modifications to the PPACA, which could result in changes to healthcare coverage including case volume and reimbursement rates. The likelihood of a repeal of the PPACA has diminished with the current U.S. administration.

Hospitals throughout the U.S. continue to face a shortage of nurses and other healthcare workers, compounded by the COVID-19 pandemic. The pandemic has also caused an exodus of experienced nurses from the industry, as well as turnover among early-career nurses, impacting the ability of hospitals to operate at full capacity. The shortage has led hospitals, including MFC Facilities, to accelerate their hiring processes and offer enhanced salary and benefit packages to attract and retain staff. The full duration and impact of this shortage is indeterminable at this time.

On November 4, 2021, CMS announced COVID-19 vaccination requirements for eligible staff at health care facilities participating in Medicare and Medicaid programs. CMS issued updated Memorandums on December 28, 2021, and January 14, 2022, each providing compliance timelines for specific states, respectively. Under the guidance, eligible facilities are mandated to develop processes and plans for:

- vaccinating all eligible staff;
- providing exemptions and accommodations for those who are exempt; and
- tracking and documenting staff vaccinations.

These requirements apply to all eligible staff working in the facility, regardless of their clinical responsibility or patient contact. However, the regulation also allows exemptions centered on medical conditions or religious beliefs, observances, or practices. Accommodations for exempt employees include but are not limited to testing, physical distancing and source control.

In order to meet the COVID-19 vaccine guidelines, facilities had to create a policy to determine if all eligible staff had received the first dose of a two-dose COVID-19 vaccine or a single-dose COVID-19 vaccine, prior to providing care, treatment, or other health care services, by January 28, 2022 / February 14, 2022 (differs by state). All eligible staff had to receive the necessary doses (one single-dose vaccine or the completion of a two-dose vaccine) to be fully vaccinated by February 28, 2022 / March 16, 2022 (differs by state).

CMS will ensure compliance with these requirements through established survey and enforcement processes. Facilities out of compliance will be cited and provided an opportunity to return to compliance before enforcement remedies such as civil monetary penalties, denial of payment, and termination from the Medicare and Medicaid program are employed.

MFC Facilities have successfully developed and implemented relevant policies and procedures to ensure compliance with the requirements of this federal vaccine mandate.

Management Strategies

Management is committed to increasing shareholder value, primarily through continued organic growth at its current Facilities. On September 13, 2022, the Corporation announced that it has made a determination to shift its focus away from deploying a growth strategy through acquisitions. As part of this change in corporate strategy, the Corporation plans to:

- suspend acquisitions;
- divest its non-core assets;
- pursue overhead cost reductions; and
- evaluate and implement strategies to return capital to its shareholders.

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;
- expansion of ancillary businesses (ASCs, imaging and urgent care services) at the SSHs, within existing markets; and
- sharing and implementing best practices and cost reduction strategies, with emphasis on supply chain and implant costs.

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 *Tax Cuts and Jobs Act*, MFA's deductions attributable to the interest expense on the promissory note (the interest paid by MFA on all debt, including the MFA promissory note, less its interest income) will be limited to 30% of adjusted taxable income, which generally represents EBITDA for this year (2022), versus earnings before interest and taxes thereafter (2023 and beyond). One of the tax relief measures under the CARES Act increased the limit from 30% to 50% of a taxpayer's adjusted taxable income for tax years beginning in 2019 and 2020. 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.

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 the impact of COVID-19, 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.

COVID-19

Broad economic factors resulting from the COVID-19 pandemic, including higher unemployment rates and reduced consumer spending, may continue to impact the Facilities' case mix, payor mix and patient volumes. Business closings and layoffs in the areas where Facilities operate may lead to increases in the uninsured and underinsured populations and adversely affect demand for Facilities' services, as well as the ability of patients to pay for services as rendered. Any deterioration in the collectability of patient accounts receivable will adversely affect cash flows and results of operations.

If general economic conditions decline or remain uncertain for an extended period of time, the Corporation's and Facilities' liquidity, ability to meet debt covenants, and ability to repay outstanding debts may be impacted. Moreover, the effects of the COVID-19 pandemic may cause disruption in the financial markets. These factors may affect the availability, terms or timing with which the Corporation and Facilities may obtain any additional funding.

Cash Balances

The Corporation's cash and cash equivalents balances are as follows:

In thousands of U.S. dollars	**December 31, 2022**	**December 31, 2021**
Cash and cash equivalents at Facility level	19,339	38,360
Cash and cash equivalents at corporate level	15,587	22,684
Cash and cash equivalents	**34,926**	**61,044**

Cash Flow Activity

Cash Flow

	Year Ended December 31,			
In thousands of U.S. dollars	**2022**	**2021**	**$ Change**	**% Change**
Cash provided by operating activities	57,013	75,642	(18,629)	(24.6%)
Cash used in investing activities	(5,775)	(8,688)	2,913	33.5%
Cash used in financing activities	(77,353)	(72,058)	(5,295)	(7.3%)
Decrease in cash and cash equivalents	**(26,115)**	**(5,104)**	**(21,011)**	**(411.7%)**
Effect of exchange rate fluctuations on cash balances held	(3)	(34)	31	91.2%
Cash and cash equivalents, beginning of the period	61,044	66,182	(5,138)	(7.8%)
Cash and cash equivalents, end of the period	**34,926**	**61,044**	**(26,118)**	**(42.8%)**

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, funds available from the corporate credit facility, as well as lines of credit at the Facilities level, or on a permanent basis with offerings of securities of the Corporation. 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, 2022 decreased by $18.6 million, primarily due to lower income from the Facilities' operations, and repayments of Medicare advances, partly offset by tax refunds in the current year.

As at December 31, 2022, the Corporation had consolidated net working capital of $32.5 million compared to $60.9 million as at December 31, 2021. The comparative figure has been adjusted, as detailed in note 20.24.1 to the financial statements. The change in consolidated net working capital compared to prior year was mainly due to decreases in cash and cash equivalents, and income tax receivable, along with increases in accounts payable, and the current portion of long-term debt, partly offset by decreases in payor advances and government stimulus funds repayable, and accrued liabilities, as well as an increase in accounts receivable. The level of working capital, including financing required to cover any deficiencies, is dependent on the operating performance of the Facilities and fluctuates from period to period.

As at December 31, 2022, accounts receivable were $64.0 million (December 31, 2021: $61.4 million), accounts payable and accrued liabilities totaled $48.6 million (December 31, 2021: $48.9 million), total assets were $377.8 million (December 31, 2021: $447.0 million) and total long-term liabilities, excluding exchangeable interest liability, were $138.9 million (December 31, 2021: $140.2 million).

Investing Activities

The $2.9 million decrease in cash used in investing activities for the year ended December 31, 2022 was mostly due to a decrease in purchases of property and equipment ($1.7 million), along with the current year proceeds from the wind-up of MPREH ($0.7 million) and the sales of non-controlling ownership interests in UMASH ($0.6 million) and BHSP ($0.3 million). This was partly offset by the increased investment in St. Luke's ASC ($0.4 million).

Financing Activities

The $5.3 million increase in cash used in financing activities for the year ended December 31, 2022 was mainly due to the increase in purchases of common shares under the terms of a substantial issuer bid ($25.9 million) and normal course issuer bids ($10.4 million), along with increases in dividends paid by the Corporation ($0.6 million), and payment of lease liabilities ($0.6 million), partly offset by lower net repayments of credit facilities and other borrowings at both Facility and corporate level ($24.1 million), lower Facility distributions to non-controlling interest ($6.3 million), and the increase in loans received from associates ($1.7 million).

The Facilities have available credit facilities in place in the aggregate amount of $29.4 million, of which $4.3 million was drawn as at December 31, 2022. The balances available under the credit facilities, combined with cash and cash equivalents as at December 31, 2022, are available to manage the Facilities' accounts receivable, supply inventory and other short-term cash requirements.

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 $75.0 million line of credit with a syndicate of two Canadian chartered banks which matures on August 31, 2025 ("Credit Facility"). The Credit Facility can be used for general corporate purposes, including working capital and capital expenditures, finance of acquisitions, and/or repurchase of the Corporation's common shares. As at December 31, 2022, $36.0 million was drawn and remained outstanding for the Credit Facility. The proceeds drawn from the Credit Facility were primarily used for the acquisition of UMASH and its underlying property in 2016 ($48.8 million), the acquisition of the MFC Nueterra ASCs in 2018 ($20.0 million), the repayment of the convertible debentures upon maturity in 2019 ($16.0 million), and the repurchase of common shares under the terms of a substantial issuer bid in 2022 ($15.0 million). The Corporation repaid $46.8 million of its outstanding balance during the year ended December 31, 2020, $12.0 million during the year ended December 31, 2021, and $5.0 million during the year ended December 31, 2022. As at December 31, 2022, the Corporation was in compliance with all of its debt covenants.

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, 2022, are as follows:

In thousands of U.S. dollars **Contractual Obligations**	**Carrying values at December 31, 2022 $**	**Future payments (including principal and interest) Total $**	**Less than 1 year $**	**2-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	1,539	1,539	1,539	-	-	-
Accounts payable	26,402	26,402	26,402	-	-	-
Accrued liabilities	22,211	22,211	22,211	-	-	-
Obligation for purchase of common shares	4,420	4,420	4,420	-	-	-
Payor advances and government stimulus funds repayable	12,335	12,335	12,335	-	-	-
Corporate credit facility	36,000	41,448	2,042	39,406	-	-
Facilities' revolving credit facilities	4,341	4,415	4,408	7	-	-
Notes payable	45,252	51,786	7,048	17,996	9,351	17,391
Lease liabilities	57,361	67,716	12,679	20,320	15,780	18,937
Total contractual obligations	**209,861**	**232,272**	**93,084**	**77,729**	**25,131**	**36,328**

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.

The following table summarizes the outstanding number of stock options as of December 31, 2022:

Optionee	Number of Options Held	Number of Options Vested	Exercise Price	Grant Date
Chief Financial Officer	300,000	-	C$12.79	June 24, 2019
Chief Development Officer	350,000	350,000	C$21.15	September 19, 2016
Former Chief Executive Officer	223,562	223,562	C$17.24	May 1, 2016
Former Chief Financial Officer	221,344	221,344	C$17.98	November 21, 2016
Total number of outstanding options	**1,094,906**	**794,906**		

Outstanding options (the "Options") vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of December 31, 2022, 794,906 of the Options relating to the Chief Development Officer, the Former Chief Executive Officer and the Former Chief Financial Officer are vested. During the year ended December 31, 2022, 850,000 Options relating to the Previous Chief Executive Officer and the Former Chief Operating Officer were forfeited.

As at December 31, 2022, the Corporation had 25,915,962 common shares outstanding.

Substantial Issuer Bid

On October 31, 2022, the Corporation completed a substantial issuer bid, by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Corporation (the "Offer"). The Corporation purchased and cancelled 3,053,097 of its common shares at a price of Cdn$11.30 per common share under the Offer, representing an aggregate purchase price of $25.5 million, or approximately 10.38% of the Corporation's issued and outstanding common shares before giving effect to the Offer. For the year ended December 31, 2022, the Corporation incurred transaction costs related to the Offer of $0.4 million which have been recorded against share capital.

Normal Course Issuer Bids

The Corporation has a normal course issuer bid, allowing the Corporation to repurchase up to 2,615,186 of its common shares, in effect from December 1, 2022 to November 30, 2023. A previous normal course issuer bid for up to 3,101,774 of the Corporation's common shares was in effect from December 1, 2021 to November 30, 2022. During the year ended December 31, 2022, the Corporation purchased 1,827,200 of its common shares for a total consideration of $12.5 million from the open market. During the year ended December 31, 2021, the Corporation purchased 310,000 of its common shares for a total consideration of $2.1 million from the open market.

Dividends

Dividend declarations are determined based on periodic 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 after considering (i) debt service obligations, (ii) other expense and tax obligations,

(iii) reasonable reserves for working capital and capital expenditures, and (iv) financial flexibility. Cash distributions declared in the period from January 1, 2022 to December 31, 2022 totaled Cdn$0.3220 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 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, 2022 consist of cash and cash equivalents, accounts receivable, dividends payable, accounts payable, accrued liabilities, borrowings (including long-term debt and corporate credit facility) and exchangeable interest liability.

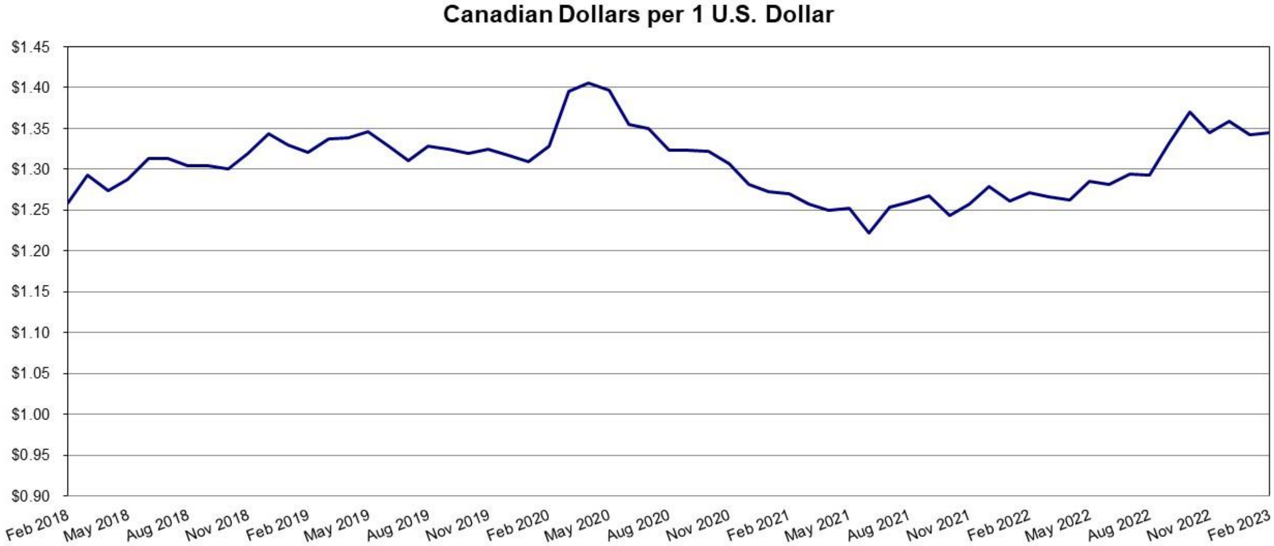
The fair value of exchangeable interest liability is determined based on the closing trading price of the Corporation's common share price at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these instruments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

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 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 2018:



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, 2022, the Corporation did not hold any foreign exchange forward contracts.

Credit Risk

The substantial portion of the Corporation's accounts receivable balance is with U.S. 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. Actual bad debts for a trailing period are compared with the 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 exchangeable interest liability is measured on quoted market prices of its 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 because common shares are quoted in Canadian dollars. 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, 2022 of $4.5 million (December 31, 2021: $4.5 million).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. For the year ended December 31, 2021, BHSH paid MPREH $0.2 million for the use of facility space, before the agreement was terminated in December 2021.

MFC Nueterra provides management services to St. Luke's ASC, for which it charged $0.3 million for the year ended December 31, 2022 (December 31, 2021: $0.2 million).

SFSH has a wholly owned subsidiary designed to function as an 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 previous ACO ended December 31, 2021. It has been replaced by a new ACO starting January 1, 2022, in which SFSH is a 50% owner through a wholly owned subsidiary that also provides management services to the new ACO.

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		**Year Ended December 31,**	
Entity	**Nature of services or goods received**	**2022 $**	**2021 $**
ASH	Lease of facility building and anesthesia equipment.	4,448	4,409
OSH	Lease of hospital building and office space.	2,544	2,544
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	2,505	983
SFSH	Provision of management services in relation to orthopedic service line and ACO, physician professional fees, anesthesia services, physical and occupational therapy services, medical products and implants, lithotripter services, laundry services, facility and related equipment, shared services, and lease of urgent care building.	11,170	10,509
MFC Nueterra ASCs	Provision of management services, physician professional services, and lease of ASC building.	1,922	2,063
Total		**22,589**	**20,508**

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. Note 20.23 to the financial statements details significant accounting judgments and estimates used in the preparation of the Corporation's financial statements.

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

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

Allowance for Non-Collectible Receivable Balances

The Facilities maintain an allowance for non-collectible receivable balances for estimated losses resulting from the inability to collect on its accounts receivable. Estimation of allowance for non-collectible receivable balances involves uncertainty about future collections which could differ from the original estimates. The allowance for non-collectible receivable balances is subject to change as general economic, industry and customer specific conditions change.

Allowance for Loan Receivable

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

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

Based on assessments during the current year, management recorded an impairment loss of $13.4 million on the Loan Receivable during the nine months ended September 30, 2022, fully impairing the Loan Receivable. On December 29, 2022, the Corporation completed the full and final settlement of the Loan Receivable for proceeds of $1.4 million, and therefore recorded an impairment gain of the same amount on the Loan Receivable during the three months ended December 31, 2022, resulting in a net impairment loss of $12.0 million on the Loan Receivable for the year ended December 31, 2022.

Impairment of Non-Financial Assets

In determining the recoverable amount of a cash-generating unit ("CGU"), various estimates are employed. The Corporation determines fair value less costs of disposal by using estimates such as market multiple relevant to the CGU. The Corporation determines value-in-use by using estimates such as future cash flows and post-tax discount rates.

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and indefinite life intangible assets are tested for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

Management performed an assessment of impairment indicators mentioned above as at December 31, 2022, and recorded an impairment of goodwill, other intangibles and equipment of $16.5 million in the MFC Nueterra ASCs CGU.

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.

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 ("COSO") framework to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the 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, 2022, and has concluded that the design and effectiveness of these controls and procedures at December 31, 2022 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, 2022 using the COSO framework. Management has concluded that the overall design and effectiveness of these controls at December 31, 2022 provide reasonable assurance of the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

There have been no changes in the Corporation's ICFR during the period beginning on October 1, 2022 and ended on December 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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 Facilities face increasing competition to recruit and retain physicians, an effort which continues to be a challenge due to physician aging and retirement.

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 SSHs, 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"), represent expenditures that are required to maintain the productive capacity of the Facilities. Historically, such expenditures have represented on average 0.8% 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.

Public Health Crises and Disease Outbreaks

The Corporation's and the Facilities' operations and financial results could be materially adversely impacted by public health crises, including the public health crisis related to the COVID-19 pandemic, or relating to any other virus, flu, pandemic, epidemic or outbreak of a contagious disease.

A public health crisis such as the COVID-19 pandemic could result in a general or acute decline in economic activity in the regions where the Facilities operate, increased unemployment, staff shortages, mobility restrictions and other quarantine measures, supply shortages, increased government regulation, and the temporary closure of one or more of the Facilities in accordance with governmental restrictions and/or to protect patients, hospital staff and the communities in which they operate. In addition, treatment of patients for COVID-19 at the Facilities, or infection of physicians and/or hospital staff, or because of physical distancing or other precautionary measures, could result in patients cancelling or deferring elective procedures or otherwise avoiding medical treatment, leading to reduced patient volumes and operating revenues. Furthermore, the treatment of someone presenting symptoms of COVID-19 at a Facility, or physicians and/or hospital staff presenting such symptoms, could result in a temporary shutdown, the diversion of patients or physician and staffing shortages. All of these occurrences may have a material adverse effect on the Corporation's business, cash flows, financial condition and results of operations, and ability to pay dividends to its shareholders.

The overall severity of COVID-19-related adverse impacts on the Corporation's business, financial condition, cash flows and/or results of operations will depend on many factors, cannot be fully estimated and are largely beyond the management's control. Such factors include, but are not limited to, the scope and duration of past and potential future stay-at-home policies and business closures, continued decreases in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure. Furthermore, the U.S. government has implemented various legislation and programs to provide support to businesses financially impacted by COVID-19, including programs targeting health care facilities. However, it is not clear how long the impacts of COVID-19 may last, or the extent of all the government legislation and programs that might be put in place in the future and how these programs may change over time, or what their full impact might be.

On January 30, 2023, the current U.S. administration announced that the COVID-19 Public Health Emergency is unlikely to continue past May 11, 2023. The Corporation and the Facilities continue to actively assess, and respond where possible, to the effects of the COVID-19 pandemic on their employees, patients, suppliers, and service providers, and evaluate governmental actions being taken to curtail its spread. The Corporation and the Facilities will continue to monitor the situation closely, and intend to follow health and safety guidelines as they evolve.

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 create, 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' information systems and applications also require continual maintenance, upgrading and enhancement to meet their operational needs. If the Facilities experience difficulties with the transition and integration of information systems or are unable to implement, maintain, or expand their systems properly, the Facilities could suffer from, among other things, operational disruptions, regulatory problems and increases in administrative expenses. 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 data breach.

The preventive actions taken to reduce the risk of such incidents and protect information and technology resources may not be sufficient. In general, Facilities' information systems are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, human acts, cyber attacks, break-ins and similar events. Facilities' business is at risk from and may be impacted by information security incidents, including ransomware, malware, phishing, social engineering, and other security events. Such incidents can range from individual attempts to gain unauthorized access to information technology systems to more sophisticated security threats. These events can also result from internal compromises, such as human error or malicious acts. These events can occur on Facilities' systems or on the systems of their partners and subcontractors. Problems with, or the failure of, Facilities' technology and systems or any system upgrades or programming changes associated with such technology and systems could have a material adverse effect on Facilities' operations, patient care, data capture, medical documentation, billing, collections, assessment of internal controls and management and reporting capabilities. The trade secrets of confidential business information of the Facilities could also be exposed as a result of a security incident.

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 harm to patients or 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.

Disasters and Similar Events

The occurrences of natural and man-made disasters and similar events, including acts of nature such as hurricanes, tornadoes, earthquakes, or other factors beyond the Corporation's control, such as wildfires, may damage some or all of the Facilities, interrupt utility service to some or all of the Facilities, disrupt patient scheduling, displace patients, employees and physician partners, or otherwise impair the operation of some or all of the Facilities or the generation of revenues from the Facilities. Furthermore, the impact, or impending threat, of a natural disaster many require evacuation of one or more Facilities, which would be costly and would involve risks for the patients.

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 30.0% and 64.0% 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.

Non-compete agreements executed by physician owners of the non-controlling interests in the Facilities may not be enforceable. This 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; and

(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, or in connection with future financing or acquisitions by the Corporation. The issuance of common shares may dilute an investor's investment in the Corporation and reduce distributable cash per common share.

MFA and MFH 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 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 and five MFC Nueterra ASCs are formed under the laws of the State of Delaware, and one MFC Nueterra ASC is formed under the laws of the State of Michigan. 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. There can be no assurance that Canadian federal income tax laws and Canada Revenue Agency 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 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 consolidated taxable income at the U.S. federal corporate tax rate (currently 21%) and is also subject to certain U.S. state and local taxes (which will not be addressed herein). MFA will claim certain deductions, including an interest deduction related to the interest paid on its debt and interest arising on other debt in the consolidated group, to the extent allowed by law, in computing its taxable income for U.S. federal income tax purposes.

Certain provisions in the Code, if applicable, may affect the U.S. federal tax liability of MFA. There are restrictions on the deductibility of interest, generally limiting such deduction to 30% of "adjusted taxable income", although disallowed interest expense can be carried forward to future years. There are also limitations on the use of net operating losses for tax years beginning after 2020 (generally, those can only be utilized to the extent of 80% of taxable income in any given year, although unused net operating losses can be carried forward indefinitely). In addition, Code section 59A, known as "BEAT", which is the acronym for "base erosion anti-abuse tax", is designed to potentially limit the tax effectiveness of deductions for payments between U.S. and non-U.S. related parties by imposing a minimum tax on the U.S. corporation. The BEAT regime generally does not apply unless the payor U.S. corporation has average annual gross receipts for the 3-tax-year period ending with the preceding tax year that are at least $500 million.

If interest deductibility is limited, the use of net operating losses is restricted, or the BEAT regime applies, the result is likely to be an increase in the U.S. federal tax liability of MFA. If the U.S. federal tax liability of MFA is increased, this may reduce the amount of after-tax cash generated by MFA that could otherwise be available to make distributions to the Corporation and thereafter to pay dividends to holders of common shares.

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, as amended (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 or equity interests 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 the Corporation would otherwise acquire or sell such assets or equity interests 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 NOT YET ADOPTED

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

Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

December 31, 2022 and 2021
(In U.S. dollars)

TABLE OF CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Management's Responsibility for Financial Reporting

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

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

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

"Jason Redman"

Jason Redman
Interim Chief Executive Officer

"David N.T. Watson"

David N.T. Watson
Chief Financial Officer

Toronto, Canada
March 8, 2023

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Medical Facilities Corporation,

Opinion

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

- the consolidated balance sheets as at December 31, 2022 and December 31, 2021;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Evaluation of impairment of goodwill and other intangibles with indefinite lives

Description of the matter

We draw attention to Notes 6, 20.11, 20.12 and 20.23.4 to the financial statements. Goodwill and other intangibles with indefinite lives are tested at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Entity has recorded goodwill and other intangibles with indefinite lives of $130,292 and recorded an impairment of goodwill and other intangibles with indefinite lives of $15,360. For the purposes of assessing impairment, assets are grouped at the cash generating until ("CGU") level, which is the lowest level for which there are separately identifiable cash flows. The Entity considers each Facility as a CGU, with the exception of the five MFC Nueterra ASCs which collectively constitute a single CGU. An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The determination of each of these amounts is subject to estimation uncertainty. The Entity's estimates include:

- Future cash flows and post-tax discount rates for value-in-use
- Market multiple relevant to the CGU for fair value less costs of disposal.

Why the matter is a key audit matter

We identified the evaluation of impairment of goodwill and other intangibles with indefinite useful lives as a key audit matter. This matter represented an area of significant risk of material misstatement due to the magnitude of the balance. Significant auditor judgement and the involvement of professionals with specialized skills and knowledge was required to evaluate the evidence relating to the Entity's estimates.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We compared the Entity's future cash flows used in the prior year estimate to actual results to assess the Entity's ability to predict future cash flows.
- We evaluated the appropriateness of the Entity's future cash flows by comparing this estimate to the Entity's historical actual cash flows taking into account changes in conditions and events affecting each CGU to assess the adjustments or lack of adjustments made in arriving at the expected future cash flows.

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

- Comparing the Entity's post-tax discount rate against a discount rate range that was independently developed using publicly available market data for comparable entities.
- Comparing the Entity's selected market multiple relevant to the CGU to the multiples implied in the trading price of comparable public companies.

Other Information

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

- The information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions; and
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2022 Annual Report".

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2022 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada

March 8, 2023

MEDICAL FACILITIES CORPORATION

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

	Note	December 31, 2022 $	December 31, 2021 Adjusted[1] $
ASSETS			
Current assets			
Cash and cash equivalents		34,926	61,044
Accounts receivable	11.4.2	64,040	61,444
Supply inventory		9,227	10,649
Prepaid expenses and other		10,549	9,749
Income tax receivable		587	6,008
Total current assets		**119,329**	**148,894**
Non-current assets			
Loan receivable	16.1	-	13,384
Deferred income tax assets	14	20	386
Property and equipment	5	74,155	77,203
Right-of-use assets	17.1	50,564	55,550
Goodwill	6.1	120,623	135,983
Other intangibles	6.2	13,100	14,449
Other assets	16.1	-	1,117
Total non-current assets		**258,462**	**298,072**
TOTAL ASSETS		**377,791**	**446,966**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		1,539	1,961
Accounts payable		26,402	23,940
Accrued liabilities		22,211	24,939
Obligation for purchase of common shares	8.4	4,420	6,531
Current portion of long-term debt	7	9,729	5,295
Current portion of lease liabilities	7	10,183	9,487
Payor advances and government stimulus funds repayable	4	12,335	15,843
Total current liabilities		**86,819**	**87,996**
Non-current liabilities			
Long-term debt	7	39,864	48,275
Lease liabilities	7	47,178	51,843
Deferred income tax liability	14	15,884	14,124
Corporate credit facility	7	36,000	26,000
Exchangeable interest liability	11.1	37,354	45,578
Total non-current liabilities		**176,280**	**185,820**
Total liabilities		**263,099**	**273,816**
Equity			
Share capital	8.1	353,237	389,510
Contributed surplus	19.1	1,192	1,859
Deficit		(275,295)	(263,817)
Equity attributable to owners of the Corporation		**79,134**	**127,552**
Non-controlling interest	9	35,558	45,598
Total equity		**114,692**	**173,150**
TOTAL LIABILITIES AND EQUITY		**377,791**	**446,966**
Commitments and contingencies	18		

[1] *Certain comparative figures have been adjusted. See note 20.24.1.*

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)

	Note	Attributable to Owners of the Corporation: Share Capital $	Contributed Surplus $	Retained Earnings/ (Deficit) $	Total $	Non-controlling Interest $	Total Equity $
2022							
Balance at January 1, 2022		389,510	1,859	(263,817)	127,552	45,598	173,150
Net income (loss) and comprehensive income (loss) for the period		-	-	(4,405)	(4,405)	16,700	12,295
Share-based compensation	19.1	-	(667)	-	(667)	-	(667)
Dividends to owners of the Corporation		-	-	(7,073)	(7,073)	-	(7,073)
Distributions to non-controlling interest	9	-	-	-	-	(26,545)	(26,545)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(195)	(195)
Purchase of common shares under normal course issuer bids	8.3	(12,508)	-	-	(12,508)	-	(12,508)
Change in obligation for purchase of common shares	8.4	2,111	-	-	2,111	-	2,111
Purchase of common shares under a substantial issuer bid	8.5	(25,876)	-	-	(25,876)	-	(25,876)
Balance at December 31, 2022		**353,237**	**1,192**	**(275,295)**	**79,134**	**35,558**	**114,692**
2021							
Balance at January 1, 2021		398,114	1,567	(272,149)	127,532	47,635	175,167
Net income and comprehensive income for the period		-	-	15,500	15,500	30,993	46,493
Share-based compensation	19.1	-	292		292	-	292
Dividends to owners of the Corporation		-	-	(7,168)	(7,168)	-	(7,168)
Distributions to non-controlling interest	9	-	-	-	-	(32,868)	(32,868)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(162)	(162)
Purchase of common shares under a normal course issuer bid	8.3	(2,073)	-	-	(2,073)	-	(2,073)
Balance at December 31, 2021, as previously reported		**396,041**	**1,859**	**(263,817)**	**134,083**	**45,598**	**179,681**
Obligation for purchase of common shares(1)	8.4	(6,531)	-	-	(6,531)	-	(6,531)
Balance at December 31, 2021, as adjusted(1)		**389,510**	**1,859**	**(263,817)**	**127,552**	**45,598**	**173,150**

(1) *Certain comparative figures have been adjusted. See note 20.24.1.*

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

MEDICAL FACILITIES CORPORATION

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

	Note	Year Ended December 31, 2022 $	2021 $
Revenue and other income			
Facility service revenue		424,551	398,633
Government stimulus income (costs)	4	(10,162)	13,099
		414,389	**411,732**
Operating expenses			
Salaries and benefits		127,352	119,901
Drugs and supplies		143,925	130,027
General and administrative expenses		70,861	57,677
Impairment of goodwill, other intangibles and equipment	6.3	16,549	-
Depreciation of property and equipment	5	9,288	9,366
Depreciation of right-of-use assets	17.1	10,837	10,172
Amortization of other intangibles	6.2	638	7,231
		379,450	**334,374**
Income from operations		**34,939**	**77,358**
Finance costs			
Change in value of exchangeable interest liability	11.1	(8,224)	11,539
Interest expense on exchangeable interest liability	11.1	7,362	8,707
Interest expense, net of interest income	15	5,731	6,064
Impairment loss on loan receivable	16.1	11,990	-
Loss on foreign currency		3	34
		16,862	**26,344**
Share of equity loss in associates	16.1	574	125
Income before income taxes		**17,503**	**50,889**
Income tax expense	14	5,208	4,396
Net income and comprehensive income for the period		**12,295**	**46,493**
Attributable to:			
Owners of the Corporation		(4,405)	15,500
Non-controlling interest	9	16,700	30,993
		12,295	**46,493**
Earnings (loss) per share attributable to owners of the Corporation			
Basic	8.2	$ (0.15)	$ 0.50
Fully diluted	8.2	$ (0.15)	$ 0.50

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

MEDICAL FACILITIES CORPORATION

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

	Note	Year Ended December 31, 2022 $	2021 $
Cash flows from operating activities			
Net income for the period		12,295	46,493
Adjustments for:			
Depreciation of property and equipment	5	9,288	9,366
Depreciation of right-of-use assets	17.1	10,837	10,172
Amortization of other intangibles	6.2	638	7,231
Impairment of goodwill, other intangibles and equipment	6.3	16,549	-
Impairment loss on loan receivable	16.1	11,990	-
Share of equity loss in associates	16.1	574	125
Change in value of exchangeable interest liability	11.1	(8,224)	11,539
Loss on foreign currency		3	34
Income tax expense	14	5,208	4,396
Share-based compensation	19.1	(667)	292
Interest expense, net of interest income		13,093	14,771
Loss on sale of non-controlling interest in Black Hills Surgical Physicians, LLC	1	5	-
Gain on sale of non-controlling interest in Unity Medical and Surgical Hospital	1	(293)	-
Loss on wind-up of Mountain Plains Real Estate Holdings, LLC	1	6	-
Other non-cash gain		(9)	(1,903)
		71,293	102,516
Net changes in non-cash operating working capital	10	(6,211)	(10,445)
		65,082	92,071
Interest paid, net of received		(10,408)	(11,821)
Income and withholding taxes received (paid)		2,339	(4,608)
Net cash provided by operating activities		**57,013**	**75,642**
Cash flows from investing activities			
Purchase of property and equipment	5	(6,718)	(8,421)
Redemption of non-controlling interest in MFC Nueterra ASCs		(195)	(162)
Investment in St. Luke's Surgery Center of Chesterfield, LLC	16.1	(535)	(105)
Proceeds from sale of non-controlling interest in Black Hills Surgical Physicians, LLC	1	336	-
Proceeds from sale of non-controlling interest in Unity Medical and Surgical Hospital	1	606	-
Proceeds from wind-up of Mountain Plains Real Estate Holdings, LLC	1	731	-
Net cash used in investing activities		**(5,775)**	**(8,688)**
Cash flows from financing activities			
Net proceeds from (repayments of) revolving credit facilities and issuance of notes payable	7	12,749	(8,647)
Repayments of notes payable by the Facilities	7	(6,726)	(9,460)
Payment of lease liabilities	7,17.3	(12,496)	(11,943)
Loans receivable from associates	16.1	1,544	(150)
Distributions to non-controlling interest	9	(26,545)	(32,868)
Dividends paid		(7,495)	(6,917)
Purchase of common shares under normal course issuer bids	8.3	(12,508)	(2,073)
Purchase of common shares under a substantial issuer bid	8.5	(25,876)	-
Net cash used in financing activities		**(77,353)**	**(72,058)**
Decrease in cash and cash equivalents		**(26,115)**	**(5,104)**
Effect of exchange rate fluctuations on cash balances held		(3)	(34)
Cash and cash equivalents, beginning of the period		61,044	66,182
Cash and cash equivalents, end of the period		**34,926**	**61,044**

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 4576 Yonge Street, Suite 701, Toronto, Ontario, Canada. The common shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbol "DR".

The Corporation's operations are based in the United States. Through its wholly-owned subsidiaries, the Corporation owns controlling interests in four specialty hospitals and six ambulatory surgery centers (the "ASCs") (collectively the "Facilities").

On March 11, 2022, the Corporation sold its 0.4% non-controlling ownership interest in Black Hills Surgical Physicians, LLC ("BHSP") for proceeds of $336. In connection with this transaction, the Corporation recorded a pre-tax loss of $5 in general and administrative expenses.

On December 29, 2022, the Corporation sold its remaining 31.7% non-controlling ownership interest in Unity Medical and Surgical Hospital ("UMASH") for proceeds of $606, recording a pre-tax gain of $293 in general and administrative expenses. Along with the sale of its equity interests, the Corporation also completed the full and final settlement of the loan receivable from UMASH ("Loan Receivable") for proceeds of $1,394, and, in connection with this transaction, recorded an impairment gain of the same amount on the Loan Receivable during the three months ended December 31, 2022. During the nine months ended September 30, 2022, the Corporation had recorded an impairment loss of $13,384 on the Loan Receivable, resulting in a net impairment loss of $11,990 on the Loan Receivable for the year ended December 31, 2022.

On December 31, 2022, Mountain Plains Real Estate Holdings, LLC ("MPREH") was wound-up. As part of this process, the entity's assets were liquidated and proceeds were distributed to the owners. The Corporation received proceeds of $731 for its 54.2% non-controlling ownership interest in MPREH. In connection with this transaction, the Corporation recorded a pre-tax loss of $6 in general and administrative expenses.

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

		Ownership Interest December 31,	
Subsidiary	**Location**	**2022**	**2021**
Arkansas Surgical Hospital, LLC ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	64.0%	64.0%
Black Hills Surgical Hospital, LLP ("BHSH")	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP ("SFSH")	Sioux Falls, South Dakota	51.0%	51.0%
The Surgery Center of Newport Coast ("SCNC")	Newport Beach, California	51.0%	51.0%
MFC Nueterra ASCs[1]	Various	47.1%	46.1%

[2] The Corporation has an average ownership interest of 47.1% based on values as at the reporting date. The five ambulatory surgery centers are situated in Michigan, Missouri, Nebraska, Ohio, and Pennsylvania.

2. STATEMENT OF COMPLIANCE

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

These consolidated financial statements were approved for issue by the Corporation's Board of Directors on March 8, 2023.

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 20.15).

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

4. COVID-19

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The outbreak began to impact the Corporation's and Facilities' operations in the latter half of March 2020. All Facilities were affected by the pandemic as elective cases were restricted, either voluntarily or by U.S. state or local government mandate, including the temporary closure of three of the MFC Nueterra ASCs, which reopened in May 2020. On January 30, 2023, the current U.S. administration announced that the COVID-19 Public Health Emergency is unlikely to continue past May 11, 2023. Management believes patient volumes and revenues may still continue to be negatively impacted until the effects of the pandemic have fully subsided.

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

4. COVID-19 (Continued)

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

The PHSSEF was administered by the Department of Health and Human Services ("HHS") to provide eligible healthcare providers with relief funds to cover non-reimbursable expenses, including lost revenue, attributable to COVID-19. Funds not utilized for eligible expenses and not applied to lost revenues must be returned. The recognition of amounts received was conditioned upon receipt of the funds, the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, and certification that the payment would be used to prevent, prepare for and respond to COVID-19. For the year ended December 31, 2022, certain Facilities received $932 in total funding from the HHS (December 31, 2021: $7,198), and recognized $1,434 in revenue as government stimulus income (December 31, 2021: $9,724), which included an amount of $502 which was recorded as a liability under payor advances and government stimulus funds repayable as at December 31, 2021.

The PPP expanded the guaranteed lending program under Section 7(a) of the *Small Business Act* administered by the US Small Business Administration. The loan amounts received are eligible for forgiveness to the extent they are used for certain qualifying expenses and to maintain payroll levels and related expenses during the 8 to 24-week period following loan origination. For the year ended December 31, 2022, the Facilities did not receive any funds under the PPP (December 31, 2021: $1,479).

Of the loans received under the PPP of $12,226 during the year ended December 31, 2020, loans of $1,655 were forgiven in full by the SBA, while loans of $6,434 had been forgiven, pending additional review. The remaining balance of $4,137, relating to one Facility, was denied forgiveness on December 10, 2022, following a re-review of the loan forgiveness application by the SBA. The Facility has appealed the decision within the SBA's procedural framework.

For the loans received under the PPP of $1,479 during the year ended December 31, 2021, all forgiveness applications were denied by the SBA in September 2022. The affected Facilities each filed an appeal against these denials. In November 2022, the SBA issued full forgiveness for loans of $612. In December 2022, the SBA withdrew its earlier decisions to deny forgiveness for loans of $468 and initiated a re-review of the loan forgiveness applications. The Facilities whose loans remain under review or appeal also had loans of $897 from an earlier round of the program which had been forgiven in full by the SBA.

4. COVID-19 (Continued)

The Facilities recognized income for the loans received under the PPP during prior periods based on reasonable assurance that they had met the requirements for forgiveness. However, due to the denial and additional review of certain loan forgiveness applications by the SBA in 2022, the Corporation no longer has reasonable assurance of meeting the forgiveness requirements for loans of $12,335, which consist of all PPP loan balances for Facilities whose forgiveness applications have been denied or are under review. As a result, these have been reversed from government stimulus income for the year ended December 31, 2022, and recorded as a liability under payor advances and government stimulus funds repayable as at December 31, 2022. It remains to be seen if the SBA will reach further denial decisions for the PPP loans under review or appeal. There remains uncertainty over the final outcome as forgiveness applications for these PPP loans must still be formally decided upon by the SBA. Management plans to vigorously pursue all reasonably available channels for reversing any denials. Any loans subsequently forgiven will result in a recognition of income and a reversal of the corresponding liability.

Under the expansion of the Medicare Accelerated and Advance Payment Program most providers and suppliers could request an advance of three to six months of Medicare payments. Certain Facilities received net advances of $23,157 for the year ended December 31, 2020. Repayment of these accelerated/advance payments commenced one year after issuance, upon which payments were recouped against Medicare claims. The advances were fully recouped as at December 31, 2022 (December 31, 2021: liability of $15,210).

The ERC was a refundable tax credit against certain employment taxes that could be claimed by eligible employers, whose business had been financially impacted by COVID-19, in their quarterly employment tax returns. For the year ended December 31, 2022, certain Facilities had claims approved under the ERC and recorded government stimulus income of $608 (December 31, 2021: $192).

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

For the year ended December 31, 2022, the Facilities did not receive any other stimulus funds under state programs (December 31, 2021: $1,783), but recognized $131 in revenue as government stimulus income (December 31, 2021: $1,652), which was recorded as a liability under payor advances and government stimulus funds repayable as at December 31, 2021.

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

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

4. COVID-19 (Continued)

Government stimulus income (costs) included in the consolidated statements of income and comprehensive income consists of the following:

	Year Ended December 31,	
	2022 $	2021 $
HHS	1,434	9,724
PPP	(12,335)	1,479
ERC	608	192
FFCRA	-	52
Other	131	1,652
Government stimulus income (costs)	**(10,162)**	**13,099**

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

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

There is uncertainty regarding the implementation, duration and impact of the CARES Act, the CA Act, the ARP act, and other existing or future stimulus legislation, if any. There can be no assurance as to the total amount of financial assistance or types of assistance the Facilities will receive, that the Facilities will be able to comply with the applicable terms and conditions to retain such assistance, that the Facilities will be able to benefit from provisions intended to increase access to resources and ease regulatory burdens for health care providers or that additional stimulus legislation will be enacted.

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

5. PROPERTY AND EQUIPMENT

	Note	Land and Improvements	Construction in Progress	Building and Improvements	Equipment and Furniture	Total
		$	$	$	$	$
Cost						
Balance at January 1, 2021		6,254	358	89,140	66,629	162,381
Additions		-	3,693	166	4,562	8,421
Transfers		-	(3,397)	2,545	852	-
Disposals		(53)	-	-	(1,011)	(1,064)
Balance at December 31, 2021		6,201	654	91,851	71,032	169,738
Additions		34	1,280	308	5,096	6,718
Transfers		2	(1,096)	714	380	-
Disposals		-	-	(7)	(339)	(346)
Balance at December 31, 2022		**6,237**	**838**	**92,866**	**76,169**	**176,110**
Accumulated depreciation						
Balance at January 1, 2021		(190)	-	(41,133)	(42,832)	(84,155)
Charged for the year		(15)	-	(4,983)	(4,368)	(9,366)
Disposals		-	-	-	986	986
Balance at December 31, 2021		(205)	-	(46,116)	(46,214)	(92,535)
Charged for the year		(17)	-	(5,677)	(3,594)	(9,288)
Disposals		-	-	7	339	346
Impairment loss	6.3	-	-	-	(478)	(478)
Balance at December 31, 2022		**(222)**	**-**	**(51,786)**	**(49,947)**	**(101,955)**
Carrying amounts						
At December 31, 2021		5,996	654	45,735	24,818	77,203
At December 31, 2022		**6,015**	**838**	**41,080**	**26,222**	**74,155**

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

6. GOODWILL AND OTHER INTANGIBLES

6.1 Goodwill

The carrying amount of goodwill as at December 31, 2022 was $120,623 (2021: $135,983).

6.2 Other intangibles

	Note	Hospital Operating Licenses $	Medical Charts and Records $	Care Networks $	Trade Names $	Non-Compete $	Total $
Cost							
Balance at January 1, 2021		2,016	7,399	195,922	11,090	2,208	218,635
Balance at December 31, 2021		2,016	7,399	195,922	11,090	2,208	218,635
Balance at December 31, 2022		**2,016**	**7,399**	**195,922**	**11,090**	**2,208**	**218,635**
Accumulated amortization							
Balance at January 1, 2021		(1,461)	(7,399)	(185,781)	(286)	(2,028)	(196,955)
Amortization charges		-	-	(6,953)	(98)	(180)	(7,231)
Balance at December 31, 2021		(1,461)	(7,399)	(192,734)	(384)	(2,208)	(204,186)
Amortization charges		-	-	(540)	(98)	-	(638)
Impairment loss	6.3	-	-	-	(711)	-	(711)
Balance at December 31, 2022		**(1,461)**	**(7,399)**	**(193,274)**	**(1,193)**	**(2,208)**	**(205,535)**
Carrying amounts							
At December 31, 2021		555	-	3,188	10,706	-	14,449
At December 31, 2022		**555**	**-**	**2,648**	**9,897**	**-**	**13,100**
Amortization period (years)		5 - Indefinite Life	5-7	9-15	20 - Indefinite life	3-5	

6.3 Impairment

The Corporation performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2022 and December 31, 2021. Based on the assessment, for the year ended December 31, 2022, the Corporation recorded an impairment loss in the MFC Nueterra ASCs cash-generating unit ("CGU") of $16,549, of which, $14,383 pertained to the Corporation's controlling interest, while $2,166 related to the non-controlling interest owners. Of the total impairment loss recorded, $15,360 relates to goodwill, $711 to other intangibles, and $478 to property and equipment. The Corporation did not record any impairment losses for the year ended December 31, 2021.

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

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

6. GOODWILL AND OTHER INTANGIBLES (Continued)

For the year ended December 31, 2022, management calculated the recoverable amount of the MFC Nueterra ASCs CGU by determining the value in use ("VIU"), and of the remaining CGUs by determining the fair value less costs of disposal ("FVLCD"). The FVLCD is determined by multiplying the earnings before interest, taxes, depreciation and amortization for the trailing twelve months ("TTM EBITDA") by a market multiple relevant to the CGU. The inputs used in the calculation of FVLCD are Level 3 inputs under IFRS 13, *Fair Value Measurement* ("IFRS 13"). Management has estimated costs of disposal to be 1% (2021: 1%) of the fair value of the CGUs, based on recent market data. The enterprise value to TTM EBITDA multiples of 8.2 to 8.7 (2021: 8.6 to 9.7) were estimated based upon a review of public company transaction multiples, non-public transaction multiples provided by a third-party consultant, and guideline public company multiples.

For the year ended December 31, 2022, the VIU of the MFC Nueterra ASCs CGU was determined based on an income approach by discounting the future cash flows generated from continuing use. The inputs used in the calculation are Level 3 inputs under IFRS 13. Cash flows for fiscal 2023 to fiscal 2027 were projected based on past experience, actual operating results normalized for non-routine items, and budgeted projections, with revenue growth rates over five years ranging from negative 5.4% to positive 2.5% based on a projection of the number of cases and revenue per case, with a terminal growth rate of 2.5%. Projected cash flows were discounted using a post-tax rate of 15.0%. The pre-tax rate was 20.8%. The discount rate was estimated based on a weighted average cost of capital which is based on a risk-free rate, plus various risk premiums including a size premium and a specific Corporation risk premium.

For the year ended December 31, 2021, management calculated the recoverable amount of all CGUs by determining the FVLCD.

To ensure reasonableness of recoverable amounts, management reconciles the recoverable amounts of its CGUs to the enterprise value of the Corporation as at December 31 based on (i) the market capitalization of the outstanding common shares, and (ii) the Corporation's portion of the Facilities' long-term debt and lease liabilities, less (iii) cash on hand.

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

	Year Ended December 31,	
	2022 **$**	**2021** **$**
ASH	17,911	17,911
OSH	17,436	17,436
BHSH	31,244	31,244
SFSH	60,896	60,896
SCNC	2,265	2,265
MFC Nueterra ASCs	540	15,900
	130,292	**145,652**

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

7. LONG-TERM DEBT AND LEASE LIABILITIES

			2022		2021	
	Maturity	**Authorized**	**Balance**	**Effective Interest Rate**	**Balance**	**Effective Interest Rate**
		$	**$**	**%**	**$**	**%**
Revolving credit facilities						
ASH	Oct 20, 2023	4,000	484	7.5	526	3.0
ASH	Jan 7, 2027	-	-	-	3,293	3.3
OSH	Jul 8, 2023	6,350	3,350	LIBOR+2.2	3,350	LIBOR+2.2
BHSH	Jul 31, 2023	6,000	500	SOFR+1.4	-	LIBOR+1.3
SFSH	Oct 1, 2023	10,000	-	BSBY+1.0	-	BSBY+1.0
SCNC	Jul 31, 2023	2,500	-	BSBY+3.3	-	BSBY+3.3
MFC Nueterra ASCs	Sep 2, 2024	500	7	6.0	-	4.3
		29,350	**4,341**		**7,169**	
Corporate credit facility						
Corporate	Aug 31, 2025	**75,000**	**36,000**	SOFR+1.4	**26,000**	LIBOR+1.5
Notes payable						
ASH	Jul 20, 2023		97	3.3	279	5.0
ASH	Aug 27, 2026		1,203	4.7	1,497	4.7
ASH	Jan 7, 2027		2,708	3.3	-	-
OSH	Nov 25, 2025		1,096	3.6	1,447	3.6
BHSH	Feb 19, 2024		59	3.8	112	3.8
BHSH	Oct 31, 2024		1,282	3.1	1,949	3.1
BHSH	Nov 15, 2025		4,754	1.8	4,978	1.8
BHSH	Nov 15, 2025		2,633	1.7	2,813	1.7
BHSH	Dec 10, 2025		800	6.0	-	-
BHSH	Jun 1, 2026		3,112	2.3	3,440	2.3
BHSH	May 10, 2027		898	4.0	1,079	4.0
BHSH	Aug 1, 2027		1,681	3.8	1,791	3.8
BHSH	Aug 1, 2027		122	3.8	219	3.8
SFSH	Mar 15, 2022		-	-	102	3.2
SFSH	Jan 1, 2024		238	4.3	447	4.3
SFSH	Apr 1, 2024		133	4.0	228	4.0
SFSH	Jun 1, 2025		460	2.2	637	2.2
SFSH	Feb 1, 2026		323	2.1	420	2.1
SFSH	Jun 1, 2026		409	2.4	505	2.4
SFSH	Dec 31, 2028		21,827	4.7	22,711	4.7
SFSH	Jul 1, 2029		778	4.8	876	4.8
SCNC	Aug 5, 2023		84	4.2	206	4.2
MFC Nueterra ASCs	Nov 30, 2022		-	-	12	3.5
MFC Nueterra ASCs	Nov 10, 2025		244	4.0	338	4.0
MFC Nueterra ASCs	Mar 4, 2026		78	4.6	105	4.6
MFC Nueterra ASCs	Oct 1, 2028		233	4.8	210	4.0
			45,252		**46,401**	
Total long-term debt			**85,593**		**79,570**	
Less current portion			(9,729)		(5,295)	
			75,864		**74,275**	

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

7. LONG-TERM DEBT AND LEASE LIABILITIES (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. These credit facilities and notes payable contain certain restrictive financial and non-financial covenants. As at December 31, 2022, the Facilities were in compliance with their covenants.

		2022		2021	
	Maturity	Balance	Effective Interest Rate	Balance	Effective Interest Rate
		$	%	$	%
Lease liabilities					
ASH	2023 - 2030	32,203	2.1 - 5.7	35,292	2.1 - 5.6
OSH	2023 - 2026	6,970	1.8 - 5.2	7,927	1.8 - 5.2
BHSH	2023 - 2032	4,033	2.4 - 5.2	3,868	3.0 - 5.4
SFSH	2023 - 2032	6,387	1.8 - 5.9	7,677	1.8 - 5.5
SCNC	2023 - 2027	2,856	2.0 - 5.7	631	2.0 - 5.0
MFC Nueterra ASCs	2023 - 2028	4,563	2.4 - 5.4	5,705	2.4 - 5.4
Corporate	2023 - 2025	349	3.4 - 6.4	230	3.4 - 5.3
Total lease liabilities		**57,361**		**61,330**	
Less current portion		(10,183)		(9,487)	
		47,178		**51,843**	

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

	$
2023	19,912
2024	14,312
2025	53,531
2026	11,392
2027 and thereafter	43,807
Future maturities of long-term debt and lease liabilities	**142,954**

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

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

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

	Note	Long-term debt $	Lease liabilities $
Balance as at January 1, 2021		97,677	64,277
Changes from financing activities:			
Net repayments of revolving credit facilities and issuance of notes payable		(8,647)	-
Repayments of notes payable by the Facilities		(9,460)	-
Payment of lease liabilities		-	(11,943)
Other changes:			
New lease agreements		-	7,287
Termination of lease agreements		-	(456)
Interest expense	15	-	2,949
Termination upon shutdown of a BHSH urgent care center		-	(784)
Balance as at December 31, 2021		**79,570**	**61,330**
Changes from financing activities:			
Net proceeds from revolving credit facilities and issuance of notes payable		12,749	-
Repayments of notes payable by the Facilities		(6,726)	-
Payment of lease liabilities		-	(12,496)
Other changes:			
New lease agreements		-	5,949
Termination of lease agreements		-	(107)
Interest expense	15	-	2,685
Balance as at December 31, 2022		**85,593**	**57,361**

8. SHARE CAPITAL

8.1 Share capital

The following table represents changes in the number and value of common shares issued and outstanding for the years 2022 and 2021:

	Note	Number of Common Shares	$
Balance at January 1, 2021		31,106,259	398,114
Common shares purchased and cancelled under a normal course issuer bid	8.3	(310,000)	(2,073)
Balance at December 31, 2021, as previously reported		30,796,259	396,041
Obligation for purchase of common shares[(1)]	8.4	-	(6,531)
Balance at December 31, 2021, as adjusted[(1)]		30,796,259	389,510
Common shares purchased and cancelled under normal course issuer bids	8.3	(1,827,200)	(12,508)
Change in obligation for purchase of common shares	8.4	-	2,111
Common shares purchased and cancelled under a substantial issuer bid	8.5	(3,053,097)	(25,876)
Balance at December 31, 2022		**25,915,962**	**353,237**

[(1)] *Certain comparative figures have been adjusted. See note 20.24.1.*

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

8. SHARE CAPITAL (Continued)

8.2 Earnings (loss) per share

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

		Year Ended December 31,	
		2022	2021
		Total	Total
Net income (loss) for the period attributable to owners of the Corporation	$	(4,405)	15,500
Divided by weighted average number of common shares outstanding for the period		29,366,985	31,092,887
Basic earnings (loss) per share	**$**	**(0.15)**	**0.50**

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

		Year Ended December 31,	
		2022	2021
		Total	Total
Net income (loss) for the period attributable to owners of the Corporation	$	(4,405)	15,500
Change in value of exchangeable interest liability (tax effected)		-	-
Interest expense on exchangeable interest liability		-	-
Modified net income (loss) for the period attributable to owners of the Corporation	$	(4,405)	15,500
Weighted average number of common shares:			
Outstanding for the period		29,366,985	31,092,887
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		-	-
Deemed to be issued as share-based compensation		-	33,893
Weighted average number of common shares (1)(2)		29,366,985	31,126,780
Fully diluted earnings (loss) per share	**$**	**(0.15)**	**0.50**

(1) *For the year ended December 31, 2022, the impact of exchangeable interest liability and share-based compensation was excluded from the dilutive weighted average number of common shares calculation because it was not applicable based on the share price prevailing at December 31, 2022.*
(2) *For the year ended December 31, 2021, the impact of exchangeable interest liability was excluded from the dilutive weighted average number of common shares calculation because it was not applicable based on the share price prevailing at December 31, 2021.*

8.3 Normal course issuer bids

The Corporation has a normal course issuer bid for up to 2,615,186 of its common shares in effect from December 1, 2022 to November 30, 2023. A previous normal course issuer bid for up to 3,101,774 of the Corporation's common shares was in effect from December 1, 2021 to November 30, 2022. During the year ended December 31, 2022, the Corporation purchased 1,827,200 of its common shares (December 31, 2021: 310,000) for a total consideration of $12,508 (December 31, 2021: $2,073) from the open market.

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

8. SHARE CAPITAL (Continued)

8.4 Obligation for purchase of common shares

The Corporation entered into an automatic share purchase plan with a broker that allows the purchase of common shares for cancellation under the normal course issuer bid, in accordance with certain prearranged trading parameters, at any time during predetermined trading blackout periods. An obligation for purchase of common shares of $4,420 was recognized under the automatic share purchase plan as at December 31, 2022 (December 31, 2021: $6,531). Subsequent to the year end, the Corporation purchased 288,600 of its common shares for a total consideration of $1,760 under the automatic share purchase plan, through March 3, 2023. The Corporation purchased 391,100 of its common shares for a total consideration of $2,953 from January 1, 2022 through the end of the blackout period on March 10, 2022, under a previous automatic share purchase plan.

8.5 Substantial issuer bid

On October 31, 2022, the Corporation completed a substantial issuer bid, by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Corporation (the “Offer”). The Corporation purchased and cancelled 3,053,097 of its common shares at a price of C$11.30 per common share under the Offer, representing an aggregate purchase price of $25,468, or approximately 10.38% of the Corporation’s issued and outstanding common shares before giving effect to the Offer. For the year ended December 31, 2022, the Corporation incurred transaction costs related to the Offer of $408 which have been recorded against share capital.

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

9. NON-CONTROLLING INTEREST

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

December 31, 2022	**ASH**	**OSH**	**BHSH**	**SFSH**	**SCNC**	**MFC Nueterra ASCs**
	$	**$**	**$**	**$**	**$**	**$**
Non-controlling interest percentage	**44%**	**35%**	**35%**	**35%**	**49%**	**37-70%**
Current assets	15,315	21,404	18,012	37,352	3,871	5,538
Non-current assets	38,298	9,074	31,076	54,995	3,436	6,525
Current liabilities	14,324	9,975	9,049	17,082	1,972	3,631
Non-current liabilities	36,700	11,471	19,882	30,685	2,941	5,599
Equity attributable to owners of the Corporation	1,450	5,871	13,102	28,977	1,221	297
Non-controlling interest	1,139	3,161	7,055	15,603	1,173	2,536
Revenue and other income	73,230	75,749	98,314	134,132	9,617	23,347
Operating expenses	59,218	67,971	79,860	94,498	8,218	21,238
Net income attributable to owners of the Corporation	3,544	2,270	9,511	21,909	269	3
Net income attributable to non-controlling interest	2,785	1,222	5,122	11,797	259	369
Net income	**6,329**	**3,492**	**14,633**	**33,706**	**528**	**372**
Distributions to non-controlling interest	4,540	2,200	5,219	12,933	519	1,134
Cash flows from operating activities	6,120	496	15,733	35,870	927	343
Cash flows from investing activities	(1,061)	(209)	(2,620)	(1,546)	(157)	(762)
Cash flows from financing activities [(1)]	(11,692)	(7,025)	(15,450)	(35,419)	(808)	287
Net cash outflow	**(6,633)**	**(6,738)**	**(2,337)**	**(1,095)**	**(38)**	**(132)**

[(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)

9. NON-CONTROLLING INTEREST (Continued)

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

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

9.1 Significant restrictions

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

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

10. NET CHANGES IN NON-CASH WORKING CAPITAL

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

	Year Ended December 31,	
	2022 $	2021 $
Accounts receivable	(2,596)	(1,232)
Supply inventory	1,422	659
Prepaid expenses and other	(1,381)	(2,743)
Accounts payable	2,462	(525)
Accrued liabilities	(2,610)	3,738
Payor advances and government stimulus funds repayable	(3,508)	(10,342)
Net changes in non-cash working capital	**(6,211)**	**(10,445)**

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

11.1 Exchangeable interest liability

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

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

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

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

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

(v) The calculation of fully diluted earnings per share involves certain modifications, if applicable, to net income as reported and the number of issued and outstanding common shares as set out in note 8.1.

The number of common shares to be potentially issued for the exchangeable interest liability and the fair value of the exchangeable interest liability as at December 31, 2022 and December 31, 2021 are as follows:

	December 31,	
	2022	**2021**
Number of common shares to be potentially issued for exchangeable interest liability	6,297,268	6,161,517
Fair value of the exchangeable interest liability in thousands of U.S. dollars	US$ 37,354	US$ 45,578
Fair value of the exchangeable interest liability in thousands of Canadian dollars	Cdn$ 50,630	Cdn$ 57,610

11.2 Fair values and classification of financial instruments

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

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The following table presents the carrying values and classification of the Corporation's financial instruments as at December 31, 2022 and December 31, 2021:

	December 31, 2022 $	December 31, 2021 $
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	34,926	61,044
Amortized cost		
Accounts receivable	64,040	61,444
Loan receivable	-	13,384
Financial liabilities		
Fair value through profit or loss		
Exchangeable interest liability	37,354	45,578
Amortized cost		
Dividends payable	1,539	1,961
Accounts payable	26,402	23,940
Accrued liabilities	22,211	24,939
Obligation for purchase of common shares	4,420	6,531
Corporate credit facility	36,000	26,000
Long-term debt	49,593	53,570

The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at amortized cost or fair value through profit or loss as of December 31, 2022 and December 31, 2021. They do not include fair value information for financial instruments which are short-term in nature.

	December 31, 2022			
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Financial assets				
Cash and cash equivalents	34,926	-	-	34,926
Financial liabilities				
Exchangeable interest liability	-	37,354	-	37,354
Corporate credit facility	-	36,000	-	36,000
Long-term debt	-	49,593	-	49,593
Total	**34,926**	**122,947**	**-**	**157,873**

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

11.3 Measurement of fair values

The following are the valuation techniques used in measuring Level 2 fair values:

Financial Instrument	Valuation Technique
Exchangeable interest liability	*Market comparison technique:* The number of the Corporation's common shares to issue is based on the contractual agreements with the holders of non-controlling interest that have exchange agreements with the Corporation and take into account the distributions to the non-controlling interest over the prior twelve months. The liability is valued based on the market price of the Corporation's common shares converted to the reporting currency as of the reporting date.
Corporate credit facility	*Market comparison technique:* Interest rates are based on the lending agreements with various banks of corporate credit facility, and they are Prime, Secured Overnight Financing Rate ("SOFR") or London Inter-Bank Offered Rate ("LIBOR") rates adjusted for the Corporation's risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals.
Long-term debt	*Market comparison technique:* Interest rates are based on the lending agreements with various banks and creditors of long-term debt, and they are Prime, Bloomberg Short-Term Bank Yield ("BSBY"), SOFR or LIBOR rates adjusted for the Facilities' risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals and interest payments discounted to present value.

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

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

11.4 Financial risk management

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

11.4.1 Foreign exchange risk

Dividends to common shareholders of the Corporation, exchangeable interest liability, and a portion of the Corporation's expenses are settled in Canadian dollars while all of its revenues are in U.S. dollars. To mitigate this risk, from time to time, the Corporation may enter into foreign exchange forward contracts to economically hedge its exposure to the fluctuation of the exchange rate between U.S. and Canadian dollars. The Corporation has a foreign exchange hedging policy in place and the execution of this policy is monitored by the Audit Committee of the Board of Directors. As at December 31, 2022 and 2021, no foreign exchange forward contracts existed.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

Exchange rate change	2022 $	2021 $
1% strengthening of the Canadian dollar	(513)	(493)
1% weakening of the Canadian dollar	513	493

11.4.2 Credit risk

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

(i) governmental payors,

(ii) health and workers' compensation insurance companies,

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

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

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

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

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

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

11. 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 2022 and 2021:

	2022		2021	
	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)	35.6	18.9	33.4	17.7
Blue Cross and Blue Shield – category (ii)	28.6	25.5	28.9	26.1
Workers' compensation – category (ii)	6.8	11.1	7.4	14.2
Other private insurance – category (iii)	23.2	32.5	23.1	29.8
Other insurance and self-pay – categories (iv) and (v)	5.8	12.0	7.2	12.2
	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, 2022 and December 31, 2021:

Accounts receivable	**2022** $	**2021** $
Neither past due nor impaired	48,000	46,622
Past due 61-90 days	4,467	4,776
Past due 91-120 days	2,665	3,276
Past due 121-150 days	2,247	2,552
Past due more than 151 days	13,929	10,418
Allowance for non-collectible receivable balances	(7,268)	(6,200)
Net accounts receivable	**64,040**	**61,444**

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

11. 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.

11.4.3 Interest rate risk

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

The interest rate profile of the Corporation's interest-bearing financial liabilities as at December 31, 2022 and December 31, 2021 was:

	December 31,	
	2022	**2021**
	$	**$**
Credit facilities with fixed interest rates	102,612	107,732
Credit facilities with variable interest rates	40,342	33,168
Total	**142,954**	**140,900**

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 $368 (2021: $387) on credit facilities with variable interest rates.

11.4.4 Price risk

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

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

11.4.5 Liquidity risk

The mandatory repayments under the credit facilities, notes payable, and other contractual obligations and commitments including expected interest payments, on a non-discounted basis, as of December 31, 2022, are as follows:

		Future payments (including principal and interest)				
Contractual obligations	**Carrying values at December 31, 2022 $**	**Total $**	**Less than 1 year $**	**2-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	1,539	1,539	1,539	-	-	-
Accounts payable	26,402	26,402	26,402	-	-	-
Accrued liabilities	22,211	22,211	22,211	-	-	-
Obligation for purchase of common shares	4,420	4,420	4,420	-	-	-
Payor advances and government stimulus funds repayable	12,335	12,335	12,335	-	-	-
Corporate credit facility	36,000	41,448	2,042	39,406	-	-
Revolving credit facilities	4,341	4,415	4,408	7	-	-
Notes payable	45,252	51,786	7,048	17,996	9,351	17,391
Lease liabilities	57,361	67,716	12,679	20,320	15,780	18,937
Total contractual obligations	**209,861**	**232,272**	**93,084**	**77,729**	**25,131**	**36,328**

The $75,000 corporate credit facility, which matures on August 31, 2025, had $39,000 undrawn as at December 31, 2022.

12. 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 8.1) and other debt facilities at the corporate level.

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

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

12. CAPITAL (Continued)

In order to maintain or adjust the capital structure, the Corporation may enter into or repay credit facilities, adjust the amount of dividends paid to common shareholders, repurchase its publicly traded securities or issue new shares or convertible debt. During the year ended December 31, 2022, the Corporation returned capital to shareholders through the repurchase and cancellation of 1,827,200 of its common shares (December 31, 2021: 310,000) for $12,508 (December 31, 2021: $2,073) under the terms of normal course issuer bids (note 8.3), and the repurchase and cancellation of 3,053,097 of its common shares for $25,876 under the terms of a substantial issuer bid (note 8.5).

13. EMPLOYEE FUTURE BENEFITS

The Corporation's benefit programs include qualified 401(k) retirement plans which cover all employees who meet eligibility requirements. Each participating entity makes matching contributions subject to certain limits. In 2022, contributions made by the Corporation and the Facilities to such plans were $2,385 (2021: $2,265).

14. INCOME TAXES

The U.S. tax return for the Corporation is prepared on a consolidated basis for U.S. entities and includes balances and amounts attributable to these entities.

The CARES Act provided tax relief with a number of measures. It included a temporary change to Section 172 of the U.S. Internal Revenue Code of 1986, as amended, (the "Code") such that net operating losses ("NOL") can be carried back five years. As a result of the change due to the CARES Act, the Corporation recorded refunds for the year ended December 31, 2020 of approximately $4,000 based on the expected application of NOL carry backs generated in the 2019 and 2020 tax years. Of this amount, $1,400 remains outstanding and receivable as at December 31, 2022. Also, under the terms of the CARES Act, a combined $7,298 of PPP government stimulus income recognized, which represents MFC's share, was excluded from taxable income for the years ended December 31, 2021 and December 31, 2020. Consistent with this, the impact of $6,815 of PPP stimulus reversed from government stimulus income for the year ended December 31, 2022, which represents MFC's share, has been excluded from taxable income.

For tax years beginning 2021, certain reliefs provided by the CARES Act were not applicable, particularly with respect to NOL carry backs and the temporary increase of the interest deduction limit to 50%, but beginning with tax year 2022 the interest deduction calculation became more stringent with the removal of depreciation and amortization from the interest deductibility formula defined by the *Tax Cuts and Jobs Act of 2017* ("TCJA"). Starting in 2022, the deductibility of interest is generally limited to 30% of earnings before interest and taxes. Also, as part of the TCJA, capital outlays are no longer eligible for 100% bonus depreciation. Beginning in 2023, bonus is limited to 80%, after which eligibility will be furthered reduced to 60% in 2024, 40% in 2025, 20% in 2026, and 0% in 2027.

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

14. INCOME TAXES (Continued)

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

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

Provision for income taxes	2022 $	2021 $
Current	3,082	2,623
Deferred	2,126	1,773
Total income tax expense	**5,208**	**4,396**

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

	2022		2021	
	$	%	$	%
Net income for the year attributable to the owners of the Corporation	(4,405)		15,500	
Income tax expense	5,208		4,396	
Income before income taxes	803	100.0	19,896	100.0
Income taxes at the statutory rate in Canada	213	26.5	5,272	26.5
Effect of:				
Differences between statutory tax rates in Canada and U.S.	3	0.4	(465)	(2.3)
Change in valuation allowance	2,563	319.2	(966)	(4.9)
Other including non-taxable and non-deductible amounts	1,569	195.4	(111)	(0.5)
Change in value of exchangeable interest liability	860	107.0	666	3.3
Income tax expense	**5,208**	**648.5**	**4,396**	**22.1**

The components of deferred income tax balances are as follows:

	2022 $	2021 $
Deferred income tax assets		
Allowance for non-collectible receivable balances	1,457	1,438
Accrued liabilities	1,939	2,476
Goodwill and other intangibles	5,628	3,955
Net operating losses and deductions carryforwards	33	34
Total deferred income tax assets	**9,057**	**7,903**
Deferred income tax liabilities		
Property and equipment	(3,675)	(3,293)
Prepaid expenses and other	(259)	(277)
Goodwill and other intangibles	(18,475)	(17,533)
Cumulative change in the value of exchangeable interest liability	(2,512)	(538)
Total deferred income tax liabilities	**(24,921)**	**(21,641)**
Net deferred income tax liabilities	**(15,864)**	**(13,738)**

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

15. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income, included in the consolidated statements of income and comprehensive income consists of the following:

	2022 $	2021 $
Interest expense at Facilities' level	2,050	1,977
Interest expense at corporate level	789	568
Interest expense on lease liabilities	2,685	2,949
Corporate credit facility stand-by fees	526	646
Interest income at Facilities' level	(30)	(25)
Interest income at corporate level	(289)	(51)
Interest expense, net of interest income	**5,731**	**6,064**

16. RELATED PARTY TRANSACTIONS AND BALANCES

16.1 Equity accounted investments

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

		December 31, 2022		December 31, 2021	
Entity	**Accounting Method**	**Ownership Interest**	**Investment Balance $**	**Ownership Interest**	**Investment Balance $**
MPREH[(1)(2)]	Equity	-	-	54.2%	776
BHSP[(3)]	Cost	-	-	0.4%	341
St. Luke's Surgery Center of Chesterfield, LLC ("St. Luke's ASC")[(4)]	Equity	28.0%	-	27.1%	-
UMASH[(5)(6)]	Equity	-	-	31.7%	-
			-		**1,117**

(1) During the year ended December 31, 2022, a loan receivable by the Corporation of $150 from MPREH was repaid. This was recorded in Prepaid expenses and other assets as at December 31, 2021.

(2) On December 31, 2022, MPREH was wound-up. As part of this process, the entity's assets were liquidated and proceeds of $731 were distributed to the Corporation for its 54.2% non-controlling ownership interest.

(3) On March 11, 2022, the Corporation sold its 0.4% non-controlling ownership interest in BHSP for proceeds of $336.

(4) During the year ended December 31, 2022, the Corporation invested an additional $535 in St. Luke's ASC. The investment balance was written down to nil due to the Corporation's share of losses recognized.

(5) On December 29, 2022, the Corporation sold its remaining 31.7% non-controlling ownership interest in UMASH for proceeds of $606.

(6) The Corporation had a loan receivable from UMASH of $13,384 as at December 31, 2021. During the nine months ended September 30, 2022, the Corporation recorded an impairment loss of $13,384 on the Loan Receivable, fully impairing it. On December 29, 2022, the Corporation completed the full and final settlement of the Loan Receivable for proceeds of $1,394, and therefore recorded an impairment gain of the same amount on the Loan Receivable during the three months ended December 31, 2022, resulting in a net impairment loss of $11,990 on the Loan Receivable for the year ended December 31, 2022.

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

16. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

16.2 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, 2022 of $4,501 (December 31, 2021: $4,501).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. For the year ended December 31, 2021, BHSH paid MPREH $180 for the use of facility space, before the agreement was terminated in December 2021.

MFC Nueterra provides management services to St. Luke's ASC, for which it charged $308 for the year ended December 31, 2022 (December 31, 2021: $210).

16.3 Key management and governance compensation

Key management and governance personnel are comprised of executive officers and the directors of the Corporation. Key management and governance compensation for the years ended December 31, 2022 and 2021 was as follows:

	2022 $	2021 $
Salaries and other employee benefits for executive officers	6,656	4,445
Director compensation	989	759
Total key management and governance compensation	**7,645**	**5,204**

Salaries and other employee benefits for executive officers include payments to executive officers for their base salaries, the Corporation's portion of social security and Medicare taxes, medical insurance and short-term and long-term disability benefit payments, separation payments, 401(k) matching contributions, payments under the Corporation's short-term incentive plan, and share-based compensation relating to stock options, performance share units, and restricted share units which have vested. Director compensation consists of board, committee and travel retainers.

16.4 Other transactions

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

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

17. LEASES

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

17.1 Right-of-use assets

Right-of-use assets	Premises $	Medical Equipment $	Office Equipment $	Total $
Balance at January 1, 2021	55,545	1,858	2,266	59,669
New lease agreements	687	6,550	-	7,237
Termination of lease agreements	(347)	-	(99)	(446)
Depreciation expense	(8,403)	(953)	(816)	(10,172)
Termination upon shutdown of a BHSH urgent care center	(738)	-	-	(738)
Balance as at December 31, 2021	**46,744**	**7,455**	**1,351**	**55,550**
New lease agreements	3,902	2,047	-	5,949
Termination of lease agreements	(98)	-	-	(98)
Depreciation expense	(8,205)	(2,189)	(443)	(10,837)
Ending balance at December 31, 2022	**42,343**	**7,313**	**908**	**50,564**

17.2 Amounts recognized in the consolidated statements of income and comprehensive income

	2022 $	2021 $
Interest expense on lease liabilities	2,685	2,949
Expenses relating to short-term leases	245	209
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	52	51

17.3 Amounts recognized in the consolidated statements of cash flows

	2022 $	2021 $
Payment of lease liabilities	(12,496)	(11,943)

17.4 Extension options

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

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

18. COMMITMENTS AND CONTINGENCIES

18.1 Commitments

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

18.2 Contingencies

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

19. SHARE-BASED COMPENSATION

19.1 Stock options

The following table summarizes the outstanding number of stock options as of December 31, 2022:

Optionee	Number of Options Held	Number of Options Vested	Exercise Price	Grant Date
Chief Financial Officer	300,000	-	C$12.79	June 24, 2019
Chief Development Officer	350,000	350,000	C$21.15	September 19, 2016
Former Chief Executive Officer	223,562	223,562	C$17.24	May 1, 2016
Former Chief Financial Officer	221,344	221,344	C$17.98	November 21, 2016
Total number of outstanding options	**1,094,906**	**794,906**		

Outstanding options (the "Options") vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of December 31, 2022, 794,906 of the Options relating to the Chief Development Officer, the Former Chief Executive Officer and the Former Chief Financial Officer are vested. During the year ended December 31, 2022, 850,000 Options relating to the Previous Chief Executive Officer and the Former Chief Operating Officer were forfeited.

During the year ended December 31, 2022, the Corporation recognized income of $667 relating to the Options (December 31, 2021: expense of $292) in salaries and benefits expense due to recoveries from forfeited shares.

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

19. SHARE-BASED COMPENSATION (Continued)

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

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

19.2 Deferred share units

Compensation for directors includes a deferred share unit ("DSU") component, for which grants based on the value of the Corporation's common shares are made quarterly. The DSUs accrue dividends, vest immediately and can be redeemed only when a participant ceases to serve as a director of the Corporation. The participant's entitlement in respect of the DSUs then held will be settled in cash based on a formula tied to the value of the Corporation's common shares at the relevant time. For the year ended December 31, 2022, director compensation included DSU grants of $802 (December 31, 2021: $493), while the change in market value of outstanding DSUs for the same period was an income of $186 (December 31, 2021: expense of $542).

The following table summarizes changes in the number of DSUs for the year ended December 31, 2022:

	2022
Opening balance of DSUs at January 1, 2022	366,806
DSUs granted on director fees	111,289
DSUs granted on dividend reinvestment	9,979
DSUs paid out	(244,304)
Total number of DSUs at December 31, 2022	**243,770**

19. SHARE-BASED COMPENSATION (Continued)

19.3 Restricted share units

Compensation for executive officers of the Corporation included a restricted share unit ("RSU") component, for which grants based on the value of the Corporation's common shares were made annually up to 2018. Effective 2018, annual RSU grants were replaced by annual performance share unit ("PSU") grants. The RSUs vested over three years, participated in the Corporation's quarterly dividends, and settled in cash. Grants were made on November 21, 2016 for 14,920 RSUs, July 1, 2017 for 21,804 RSUs, and on May 10, 2018 for 17,040 RSUs. The value of the expense and liability associated with the RSUs was determined based on the Corporation's share price at the end of each reporting period. For the year ended December 31, 2021, operating expenses included an RSU expense of $24. On May 10, 2021, all outstanding RSUs vested, after which they were paid out in the same quarter.

19.4 Performance share unit plan

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

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

19.4.1 Performance share units

PSU grants were made on March 29, 2018 for 59,003 PSUs, and on March 29, 2019 for 51,077 PSUs. The value of the expense and liability associated with the PSUs is determined based on the Corporation's share price at the end of each reporting period. For the year ended December 31, 2022, operating expenses included a PSU expense of $79 (December 31, 2021: $113). On March 29, 2022, all outstanding PSUs vested, after which they were paid out in the next quarter.

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

19. SHARE-BASED COMPENSATION (Continued)

The following table summarizes changes in the number of PSUs for the year ended December 31, 2022:

	2022
Opening balance of PSUs at January 1, 2022	34,860
PSUs granted on dividend reinvestment	314
PSUs vested and settled	(29,310)
PSUs forfeited	(5,864)
Total number of PSUs at December 31, 2022	**-**

19.4.2 Share units

To date, SU grants were made on March 31, 2020 for 346,638 Executive DSUs, on March 31, 2021 for 175,898 Executive DSUs, and on March 31, 2022 for 150,348 Executive DSUs. The value of the expense and liability associated with the SUs is determined based on the Corporation's share price at the end of each reporting period. For the year ended December 31, 2022, operating expenses included an SU expense of $1,053 (December 31, 2021: $1,472). As at December 31, 2022, the liability for SUs was $1,204 (December 31, 2021: $2,095).

The following table summarizes changes in the number of SUs for the year ended December 31, 2022:

	2022
Opening balance of SUs at January 1, 2022	559,004
SUs granted	150,348
SUs granted on dividend reinvestment	21,676
SUs vested and settled	(252,206)
SUs forfeited	(217,688)
Total number of SUs at December 31, 2022	**261,134**

20. SIGNIFICANT ACCOUNTING POLICIES

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

20.1 Basis of measurement

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

20.2 Functional presentation currency

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.3 Basis of consolidation

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

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

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

20.4 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 U.S. government insurance programs (i.e., Medicaid or Medicare), which allows for a wide group of patients electing to have their procedures performed at one of the Facilities. The Facilities principally provide surgical facilities, support staff and pre- and post-surgical care related to surgeries. Finally, the Facilities have similar economic characteristics, which management defines as comparable long-term operating margins, recognizing differences between the Facilities in payor mix, surgical specialties and local healthcare markets.

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.5 Cash and cash equivalents

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

20.6 Accounts receivable

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

(i) As described in note 20.19, amounts billed are reduced by adjustments for explicit and implicit price concessions.

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

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

20.7 Supply inventory

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

20.8 Property and equipment

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

Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets. Land is not depreciated. The estimated useful lives of property and equipment are as follows:

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.9 Right-of-use assets

Depreciation of right-of-use assets is computed using the straight-line method over the shorter of the lease term and their useful lives unless it is reasonably certain that the Facilities will obtain ownership by the end of the lease term.

20.10 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 based on elections made independently for each acquisition. Goodwill is stated at cost less accumulated impairment losses. Goodwill is not amortized but is reviewed at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

20.11 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, non-compete agreements, medical charts and records, care networks and trade names. Other intangibles are stated at cost less accumulated amortization and accumulated impairment losses, when applicable.

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

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

Hospital operating licenses	5 years - indefinite life
Non-compete agreements	3-5 years
Medical charts and records	5-7 years
Care networks	9-15 years
Trade names	20 years - indefinite life

Trade names represent the value assigned to the reputation of the hospitals and their standing in the business and local community which allow them to earn higher than average returns.

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.12 Impairment of non-financial assets

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

For the purposes of assessing impairment, assets are grouped at the CGU level, which is the lowest level for which there are separately identifiable cash flows. Management considers each Facility as a CGU, with the exception of the five MFC Nueterra ASCs which collectively constitute a single CGU.

An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its VIU and FVLCD. The two approaches are described below:

1) VIU approach – The estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, and

2) FVLCD approach – The TTM EBITDA is multiplied by a market multiple relevant to the CGU.

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

20.13 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.

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.14 Impairment of non-derivative financial assets

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

20.14.1 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.

The Corporation applies expected credit loss ("ECL") models to the assessment of impairment on accounts receivables, Loan Receivable and other financial assets of the Corporation. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which is determined on a probability-weighted basis. The impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

The Corporation adopts the practical expedient to determine ECL on accounts receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The Corporation determines lifetime ECL on the Loan Receivable, as it was designated as credit-impaired on initial recognition (a "POCI asset"). POCI assets are measured using the effective interest rate method which incorporates the lifetime ECLs on initial recognition. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the expected future cash flows discounted at the asset's original effective interest rate. The ECL model requires judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset.

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.14.2 Equity-accounted investments

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

20.15 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.

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

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

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

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

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

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

20.16 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.

20.17 Exchangeable interest liability

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

20.18 Leases

At the inception of a contract, the Corporation assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for considerations.

The Facilities' lease assets include premises, medical equipment and office equipment. The Corporation recognizes right-of-use assets and lease liabilities for most leases, except for those leases that are of low value or short term (such as certain office equipment). The Corporation recognizes the payments associated with these leases as an expense on a straight-line basis over the lease term.

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Corporation by the end of the lease term or the cost of the right-of-use asset reflects that the Corporation will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate. The Corporation determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

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

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

20.19 Facility service revenue

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

20.20 Government stimulus income

The Facilities may receive financial grants from the government in return for past or future compliance with certain conditions relating to their operating activities. These financial grants are recorded as government stimulus income by the Corporation when there is reasonable assurance that the Facilities will comply with the relevant conditions and the financial grant is received. If subsequently, there is no longer reasonable assurance that the conditions of the government grant would be met, the repayable will be accounted for prospectively, as a change in estimate, and recognized as a liability under payor advances and government stimulus funds repayable.

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.21 Income taxes

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

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

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

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

20.22 Share-based payments

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

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.23 Significant accounting judgments and estimates

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

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

20.23.1 Revenue

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

20.23.2 Allowance for non-collectible receivable balances

The Facilities maintain an allowance for non-collectible receivable balances for estimated losses resulting from the inability to collect on its accounts receivable. Estimation of allowance for non-collectible receivable balances involves uncertainty about future collections which could differ from the original estimates. The allowance for non-collectible receivable balances is subject to change as general economic, industry and customer specific conditions change.

20.23.3 Allowance for loan receivable

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

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.23.4 Impairment of non-financial assets

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

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and indefinite life intangible assets are tested for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

20.23.5 Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of deferred taxable income. The Corporation's income tax assets and liabilities are based on interpretations of income tax legislation across various jurisdictions in Canada and the United States. The Corporation's effective tax rate can change from year to year based on the mix of income among different jurisdictions, changes in tax laws in these jurisdictions, and changes in the estimated value of deferred tax assets and liabilities. The Corporation's income tax expense reflects an estimate of the cash taxes the Corporation is expected to pay for the current year and a provision for changes arising in the values of deferred tax assets and liabilities during the year.

The carrying value of these assets and liabilities is impacted by factors such as accounting estimates inherent in these balances, management's expectations about future operating results, and previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authorities. Such differences in interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective legal entity's domicile. On a regular basis, management assesses the likelihood of recovering value from deferred tax assets, such as loss carry forwards, as well as from the depreciation of capital assets, and adjusts the tax provision accordingly.

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

20.24 New and revised IFRS not yet adopted

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

20. SIGNIFICANT ACCOUNTING POLICIES (Continued)

20.24.1 Prior year adjustment

In preparation of the current year consolidated financial statements management identified that an obligation for purchase of common shares of up to $6,531 existed as at December 31, 2021, under a previous automatic share purchase plan, which had not been recorded in the prior year consolidated financial statements. Certain prior year figures in the Consolidated Balance Sheet and the Consolidated Statement of Changes in Equity have been adjusted to record this. This adjustment had no impact on the Consolidated Statement of Income and Comprehensive Income and the Consolidated Statement of Cash Flows.

The following table summarizes the impact of this adjustment on the prior year consolidated financial statements:

Consolidated Balance Sheet

December 31, 2021 (In thousands of U.S. dollars)	**As previously reported** **$**	**Adjustments** **$**	**As adjusted** **$**
TOTAL ASSETS	**446,966**	**-**	**446,966**
LIABILITIES AND EQUITY			
Current liabilities			
Obligation for purchase of common shares	-	6,531	6,531
Other current liabilities	81,465	-	81,465
Total current liabilities	**81,465**	**6,531**	**87,996**
Total non-current liabilities	**185,820**	**-**	**185,820**
Total liabilities	**267,285**	**6,531**	**273,816**
Equity			
Share capital	396,041	(6,531)	389,510
Other equity	(216,360)	-	(216,360)
Total equity	**179,681**	**(6,531)**	**173,150**
TOTAL LIABILITIES AND EQUITY	**446,966**	**-**	**446,966**

The Corporation purchased 391,100 of its common shares for a total consideration of $2,953 from January 1, 2022 through the end of the blackout period on March 10, 2022.