

Consolidated Financial Statements of

**MEDICAL FACILITIES
CORPORATION**

December 31, 2011 and 2010
(In U.S. dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Medical Facilities Corporation

We have audited the accompanying consolidated financial statements of Medical Facilities Corporation, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Medical Facilities Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a single horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the right end.

Chartered Accountants, Licensed Public Accountants
March 21, 2012
Toronto, Canada


MEDICAL FACILITIES CORPORATION


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

		December 31,		January 1,
	Note	2011 \$	2010 \$	2010 \$
ASSETS				
Current assets				
Cash and cash equivalents		17,984	19,062	28,963
Short-term bank deposits		9,034	12,531	-
Accounts receivable	14.4.2	41,508	40,818	36,586
Supply inventory		3,774	3,807	3,838
Prepaid expenses and other		2,602	2,955	2,796
Income tax receivable	17	10,134	15,116	8,791
Total current assets		85,036	94,289	80,974
Non-current assets				
Long-term bank deposits		2,526	-	-
Restricted cash	14.1	4,483	4,483	4,483
Foreign exchange forward contracts	14.1	3,076	3,835	1,205
Subordinated notes payable early redemption option	13.2	-	28,539	18,201
Deferred income tax assets	17	13,204	7,727	9,245
Investment in and loan advance to an associate	7	356	404	-
Property and equipment	8	54,808	58,621	58,824
Goodwill	9.1	87,278	87,278	87,278
Other intangibles	9.2	83,574	96,084	109,321
Total non-current assets		249,305	286,971	288,557
TOTAL ASSETS		334,341	381,260	369,531
LIABILITIES AND EQUITY				
Current liabilities				
Accrued interest payable		526	2,262	2,164
Dividends payable		2,553	849	812
Accounts payables		7,299	6,877	6,912
Accrued liabilities		12,602	11,822	9,958
Current portion of long-term debt	10	11,889	9,650	15,249
Total current liabilities		34,869	31,460	35,095
Non-current liabilities				
Long-term debt	10	32,083	40,718	30,379
Foreign exchange forward contracts	14.1	424	284	150
Convertible secured debentures	12	43,110	45,376	42,345
Subordinated notes payable	13.1	-	161,034	151,745
Exchangeable interest liability	14.2	72,031	59,010	50,913
Total non-current liabilities		147,648	306,422	275,532
Total liabilities		182,517	337,882	310,627
Equity				
Share capital	13.3	361,935	98,764	98,794
Deficit		(228,352)	(76,937)	(60,162)
Equity attributable to owners of the Corporation		133,583	21,827	38,632
Non-controlling interest		18,241	21,551	20,272
Total equity		151,824	43,378	58,904
Commitments and contingencies	21			
TOTAL LIABILITIES AND EQUITY		334,341	381,260	369,531

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

On behalf of the Board:


Seymour Temkin


Alan J. Dilworth

MEDICAL FACILITIES CORPORATION

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

		Attributable to Owners of the Corporation			Non-controlling Interest	Total Equity
	Note	Share Capital \$	Deficit \$	Total \$	\$	\$
2011						
Balance at December 31, 2010		98,764	(76,937)	21,827	21,551	43,378
Total comprehensive income (loss)		-	(15,370)	(15,370)	27,506	12,136
Dividends to owners of the Corporation		-	(22,616)	(22,616)	-	(22,616)
Distributions to non-controlling interest		-	-	-	(30,816)	(30,816)
Acquisition of additional interest in OSH	5	1,458	-	1,458	-	1,458
Elimination of common share component of previously outstanding IPS units	13.3	(99,132)	-	(99,132)	-	(99,132)
Issue of new common shares on exchange of previously outstanding IPS units	13.3	362,403	(113,429)	248,974	-	248,974
Purchase of IPS units/common shares under normal course issuer bids	13.5	(1,558)	-	(1,558)	-	(1,558)
Balance at December 31, 2011		361,935	(228,352)	133,583	18,241	151,824
2010						
Balance at January 1, 2010		98,794	(60,162)	38,632	20,272	58,904
Total comprehensive income (loss)		-	(6,794)	(6,794)	27,350	20,556
Dividends to owners of the Corporation		-	(9,981)	(9,981)	-	(9,981)
Distributions to non-controlling interest		-	-	-	(25,315)	(25,315)
Acquisition of additional interest in OSH	5	317	-	317	-	317
Redemption of interest in Barranca Surgery Center, LLC	6	-	-	-	(756)	(756)
Purchase of IPS units under normal course issuer bids	13.5	(347)	-	(347)	-	(347)
Balance at December 31, 2010		98,764	(76,937)	21,827	21,551	43,378

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

MEDICAL FACILITIES CORPORATION

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

	Note	Years Ended December 31,	
		2011 \$	2010 \$
Facility service revenue		220,775	217,918
Operating expenses			
Salaries and benefits		52,600	51,482
Drugs and supplies		53,534	52,952
General and administrative		32,261	31,754
		138,395	136,188
Income from operations		82,380	81,730
Depreciation and amortization		19,395	19,976
Finance costs			
Interest expense, net of interest income	18	14,582	26,169
Interest expense on exchangeable interest liability	14.2	8,275	7,103
Increase (decrease) in value of subordinated notes payable early redemption option	13.2	1,185	(10,338)
Loss on foreign currency	19	3,820	7,328
		27,862	30,262
Income before undernoted		35,123	31,492
Increase (decrease) in value of convertible secured debentures	12	(1,299)	626
Increase in value of exchangeable interest liability	14.2	14,874	8,792
Direct expenses attributable to the Restructuring		518	-
Income before income taxes		21,030	22,074
Income tax expense	17	8,894	1,518
Total comprehensive income for the year		12,136	20,556
Attributable to:			
Owners of the Corporation		(15,370)	(6,794)
Non-controlling interest		27,506	27,350
		12,136	20,556
Basic and fully diluted loss per share attributable to owners of the Corporation	13.4	\$ (0.542)	\$ (0.240)

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)

		Years Ended December 31,	
	Note	2011 \$	2010 \$
Cash flows from operating activities			
Comprehensive income for the period		12,136	20,556
Adjustments for:			
Depreciation of property and equipment	8	6,885	6,739
Amortization of other intangibles	9.2	12,510	13,237
Share of equity loss in an associate	7	15	3
Increase (decrease) in value of convertible secured debentures	12	(1,299)	626
Increase (decrease) in value of subordinated notes payable early redemption option	13.2	1,185	(10,338)
Increase in value of exchangeable interest liability	14.2	14,874	8,792
Interest expense, net of interest income	18	14,582	26,169
Loss on foreign currency	19	3,820	7,328
Deferred income tax expense	17	6,793	1,518
Current income tax expense	17	2,100	-
Interest paid		(5,408)	(25,637)
Income and withholding taxes received (paid)	17	2,882	(6,325)
Change in non-cash operating working capital		(10,049)	(2,897)
Net cash provided by operating activities		61,026	39,771
Cash flows from investing activities			
Purchase of property and equipment	8	(3,072)	(6,893)
Redemption of (investment in) short-term bank deposits		3,497	(12,531)
Investment in long-term bank deposits		(2,526)	-
Cash interest received		250	149
Cash impact of redemption of interest in Barranca Surgery Center, LLC	6	-	(98)
Investment in and loan advance to an associate	7	-	(440)
Net cash used in investing activities		(1,851)	(19,813)
Cash flows from financing activities			
Repayments of revolving credit facilities at the Centers	10	(3,333)	(1,838)
Proceeds from (repayments of) notes payable and repayments of obligations under lease arrangements at the Centers	10	(3,063)	6,576
Distributions, return of capital and loan receivable from an associate	7	33	32
Distributions to non-controlling interest		(30,816)	(25,315)
Dividends paid		(20,912)	(9,945)
Purchase of convertible secured debentures under the terms of normal course issuer bid	12	(3)	(18)
Purchase of IPS units/common shares under the terms of normal course issuer bids	13.5	(1,634)	(960)
Costs related to the Conversion	13	(1,146)	-
Net cash used in financing activities		(60,874)	(31,468)
Decrease in cash and cash equivalents		(1,699)	(11,510)
Effect of exchange rate fluctuations on cash balances held		621	1,609
Cash and cash equivalents, beginning of the year		19,062	28,963
Cash and cash equivalents, end of the year		17,984	19,062
Non-cash transactions:			
Acquisition of additional interest in Oklahoma Spine Hospital, LLC	5	1,853	695
Conversion	13.3	362,403	

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

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

1. REPORTING ENTITY

Medical Facilities Corporation (the "Company"), is a British Columbia corporation and a public company listed on the Toronto Stock Exchange under the ticker symbol DR. The Company owns indirect controlling interests in five limited liability entities (the "Centers" and collectively with the Company, the "Corporation"), each of which owns a specialty hospital or an ambulatory surgery center located in the United States. The Centers, their locations and the Corporation's ownership interest in each are as follows:

Centers	Location	Ownership Interest December 31,	
		2011	2010
Black Hills Surgical Hospital, LLP ("BHSH")	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP ("SFSH") ⁽¹⁾	Sioux Falls, South Dakota	51.0%	51.0%
Dakota Plains Surgical Center, LLP ("DPSC")	Aberdeen, South Dakota	64.6%	64.6%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	57.8%	56.1%
The Surgery Center of Newport Coast, LLC ("Newport Coast")	Newport Beach, California	51.0%	51.0%

⁽¹⁾ Sioux Falls Surgical Hospital changed its name to Sioux Falls Specialty Hospital effective August 22, 2011.

These consolidated financial statements include the results of operations of Barranca Surgery Center, LLC ("Barranca"), a second ambulatory surgery center in California, until August 13, 2010 at which time the Corporation's indirect 51% interest in this Center was redeemed by the holders of the non-controlling interest (note 6).

The Corporation previously issued income participating securities ("IPS") units pursuant to an initial public offering on March 29, 2004. Each IPS unit was comprised of Cdn\$5.90 aggregate principal value of 12.5% subordinated notes payable and one common share of the Corporation. On May 31, 2011, the Corporation completed a conversion to a traditional common share structure (the "Conversion") which was approved by common shareholders at the annual and special meeting on May 13, 2011. Subsequently, at a special meeting held on May 13, 2011, the subordinated noteholders agreed to exchange their subordinated notes for new common shares. Pursuant to the Conversion, each existing common share of the Corporation was exchanged for approximately 0.54 of a new common share of the Corporation and each Cdn\$5.90 aggregate principal amount of 12.5% subordinated note payable was exchanged for approximately 0.46 of a new common share of the Corporation (note 13).

Concurrently with the Conversion, the Corporation undertook a restructuring of its U.S. corporate entities (the "Restructuring"). Medical Facilities Holdings (USA), LLC, the Corporation's wholly-owned subsidiary that holds interests in the Centers, converted to a Delaware corporation and was renamed Medical Facilities (USA) Holdings, Inc. ("MFH"). The Corporation incorporated a new wholly-owned subsidiary, Medical Facilities America, Inc. ("MFA") under the laws of the State of Delaware. The Corporation transferred the shares of MFH to MFA in exchange for common shares and a promissory note of MFA.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee. These are the Corporation's first consolidated annual financial statements in accordance with IFRS and IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") has been applied. The Corporation's accounting policies presented in note 3 have been applied in preparing these consolidated financial statements and the comparative information, including the balance sheet at the date of transition.

Previously, the Corporation prepared its annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 4. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

These consolidated financial statements were approved by the Corporation's board of directors on March 21, 2012.

2.2 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.

2.3 Functional and presentation currency

The Corporation's 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.

The Corporation translates monetary assets and liabilities denominated in Canadian dollars, principally its convertible secured debentures, certain of its cash balances and, prior to the Conversion, its subordinated notes payable, 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 comprehensive income.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

2. BASIS OF PREPARATION (Continued)

2.4 Use of judgments and estimates

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

Management's judgment is required in respect of (i) consolidation, (ii) functional currency, (iii) recognition of deferred tax assets and liabilities and (iv) classification of leases.

Management's estimates are required with respect of (i) facility service revenue and accounts receivable, (ii) supply inventory, (iii) valuation of financial instruments, (iv) acquired assets and liabilities, primarily goodwill and other intangibles, (v) impairment of goodwill and other intangibles, (vi) provision for potential liabilities and (vii) income tax provisions.

3. 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 Centers.

3.1 Basis of consolidation

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. In assessing the degree of control, potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The non-controlling interest in the equity of the Corporation's subsidiaries is included in 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.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1.2 Associates

The Corporation has significant influence on the operating and financial decisions of an associate which does not amount to total or joint control and, therefore, the investment in the associate is accounted on an equity basis.

3.2 Business combinations

Acquisitions are accounted for using the acquisition method. The cost of each acquisition is measured at the fair values of liabilities incurred or assumed and the consideration paid by the Corporation in exchange for control of the acquired entity on the date when control is transferred to the Corporation. The acquired entity's identifiable assets, including previously unrecognized intangibles, liabilities and contingent liabilities, are recognized at their fair values at the acquisition date. Costs related to effecting the acquisition are expensed in the period they are incurred. At the date of the acquisition, the non-controlling interest is measured at the non-controlling interest's proportionate share of the fair value of identifiable assets of the acquiree. As part of the transition to IFRS, the Corporation has elected to not restate those business combinations that occurred prior to January 1, 2010. In respect of those acquisitions, goodwill represents the amount recognized under the Corporation's previous accounting framework. Contingent consideration in respect of those acquisitions prior to January 1, 2010, accounted for as exchangeable interest liability, is recorded on the balance sheet with periodic changes in fair value of that liability reflected in comprehensive income.

3.3 Segment information

Management of the Corporation reviews performance of the Corporation on a combined basis. As the Corporation's Centers operate in the same industry and in the same country, they are treated as one segment for financial reporting and disclosure purposes.

3.4 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and all liquid investments purchased with a maturity of three months or less and which can be redeemed by the Corporation on short notice without any penalties.

3.5 Bank deposits

Bank deposits represent all liquid investments purchased with a maturity of three months or more. Bank deposits with maturities of more than three months but less than twelve months are classified as short-term and bank deposits with maturities of twelve months or more are classified as long-term.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Accounts receivable

Accounts receivable are recorded at the time services are rendered. Payments from third party payors are generally received within 60 days of the billing date. Residual amounts due from patients are considered past due 30 days after receiving payment from third party payors. Accounts receivable are recorded at the amounts estimated to be recoverable from the third party payors and the patients, by applying the following policies:

- (i) An allowance for third party payor discounts is maintained at a level management believes reflects the estimated discounts that will be applied upon collection of accounts receivable balances. The allowance is established using the third party payor contracts effective at period end and/or based on historical payment rates.
- (ii) An allowance for non-collectible receivable balances is maintained at a level which 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 Center. Patient receivables are written off as non-collectible when all reasonable collection efforts have been exhausted.

3.7 Supply inventory

Supply inventory consists of inventory 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.

3.8 Foreign exchange forward contracts

The Corporation holds a portfolio of foreign exchange forward contracts to manage its exposure to fluctuations in the exchange rate between U.S. and Canadian currencies. These foreign exchange forward contracts are treated as freestanding derivative financial instruments and are recorded at fair value. Unrealized gains or losses resulting from changes in fair value and gains or losses realized upon settlement of the foreign exchange forward contracts are included in "Loss (gain) on foreign currency" in the consolidated statements of comprehensive income (note 19).

3.9 Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The estimated useful lives for both the current and comparative periods are as follows:

Building and improvements	15-39 years
Equipment and furniture	3-7 years

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

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

3.10 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of cost over the fair value of identifiable net assets acquired. Goodwill is stated at cost less accumulated impairment losses. Goodwill is not amortized but is reviewed at least annually for impairment, or when events or changes in circumstances indicate that the carrying amount may not be recoverable.

3.11 Other intangibles

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

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

Hospital operating licenses	5 years
Medical charts and records	5-7 years
Referral sources	10-15 years

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. There is no foreseeable limit to the period over which trade names are expected to generate cash inflows for the Corporation.

Other intangibles are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recorded in the period in which it arises.

3.12 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, for example goodwill and trade names, are not amortized and are tested annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets that are subject to amortization are reviewed for impairment annually and when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the cash generating unit level which is the lowest level for which there are separately identifiable cash flows. Management considers each Center as a cash generating unit. Impairment losses recognized in respect of the Centers are allocated first to reduce the carrying amount of any goodwill allocated to the respective Center and, then, to reduce the carrying amount of the other assets of the respective Center on a pro rata basis.

3.13 Financial assets and liabilities

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

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

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Foreign exchange forward contracts, embedded derivatives requiring bifurcation from their host contracts, convertible secured debentures and exchangeable interest liability are classified as FVTPL and are carried at fair value with unrealized gains or losses recognized through comprehensive income.

(ii) Loans and receivables

Cash and cash equivalents, short-term and long-term bank deposits, restricted cash, accounts receivable and loan receivable from an associate are classified as loans and receivables and are carried at amortized cost using the effective interest rate method.

(iii) Other liabilities

Accrued interest payable, dividends payable, accounts payable, accrued liabilities, long-term debt and, prior to the Conversion, subordinated notes payable are classified as other assets and liabilities and are carried at amortized cost using the effective interest rate method.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities are included in the carrying value of such instruments.

3.14 Common shares

Common shares are classified as equity. The recorded amount is reduced by the incremental costs directly attributable to the issuance of new shares.

3.15 Dividends

Dividend payments to the Corporation's owners are recognized in the Corporation's financial statements in the period in which the dividends are declared by the Corporation's board of directors.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 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.

3.17 Convertible secured debentures

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

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

3.18 Exchangeable interest liability

Exchangeable interest liability represents an estimated liability for the remaining portion of the interest in the Centers held by the non-controlling interests which can be exchanged, subject to certain restrictions, for common shares, previously IPS units, of the Corporation. The exchangeable interest liability is a financial liability which is remeasured at the end of each reporting period taking into account (i) the calculated amount of common shares, previously IPS units, potentially issuable for the remaining portion of the exchangeable interest in the Centers held by the non-controlling interests, (ii) the market value of common shares, previously IPS units, 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 comprehensive income for the respective periods.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Facility service revenue

Facility service revenue consists of the actual amounts received and the estimated net realizable amounts receivable from patients, third-party payors and others for services rendered.

Each Center has agreements with third-party payors that provide for payments at amounts different from the Center's established rates. Payment arrangements include prospectively determined rates per diagnosis, reimbursed costs, discounted charges and per diem payments. Settlements under reimbursement arrangements are accrued on an estimated basis in the period the services are rendered, and are adjusted in future periods, as final settlements are determined. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the period of settlement.

3.20 Income taxes

Income tax expense consists of current and deferred taxes. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

The Corporation calculates deferred income taxes using the 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 by the end of the reporting period. The effect on tax assets and liabilities of a change in tax rates is recognized in income tax expense in 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.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Earnings per share

The Corporation presents basic and fully diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing profit or loss attributable to owners of the Corporation by the weighted average number of common shares outstanding during the period. Fully diluted EPS is determined by adjusting the profit or loss attributable to owners of the Corporation and the weighted average number of common shares outstanding for the effects of all potentially dilutive events, which comprise the conversion of convertible secured debentures and the exercise of exchange rights by the non-controlling interest.

3.22 IFRS standards not yet adopted

3.22.1 Transfers of financial assets

On October 7, 2010, the IASB amended IFRS 7, *Financial Instruments: Disclosures* extending the disclosure requirements for financial assets that have been transferred but not derecognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. The amendments are effective for annual periods beginning on or after July 1, 2011 and will be effective for the Corporation's financial year ending December 31, 2012. The Corporation has determined that these amendments will have no impact on its financial statements.

3.22.2 Disclosure of Interests in Other Entities

On May 12, 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") which requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Concurrent with the issuance of IFRS 12, the IASB also issued:

- (i) IFRS 10, *Consolidated Financial Statements* ("IFRS 10");
- (ii) IFRS 11, *Joint Arrangements* ("IFRS 11");
- (iii) IAS 27, *Separate Financial Statements* (revised 2011), which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- (iv) IAS 28, *Investments in Associates and Joint Ventures* (revised 2011), which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each of the above-mentioned standards has an effective date for annual periods beginning on or after January 1, 2013. Early adoption is permitted provided all five standards are adopted at the same time. The Corporation has not yet determined the impact, if any, of the above-mentioned standards on its financial statements.

3.22.3 Other Comprehensive Income (“OCI”)

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements* (“IAS 1”) to require the grouping together of OCI items that may be reclassified to the Statement of Earnings within OCI. The amendment is effective for annual periods beginning on or after July 1, 2012, and will be effective for the Corporation’s financial year ending December 31, 2013. The Corporation has determined that this amendment will have no impact on its financial statements.

3.22.4 Fair Value Measurement

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement* (“IFRS 13”), which provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for when fair value measurement is required or permitted under IFRS. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted and will be effective for the year ending December 31, 2013. The Corporation has not yet determined the impact of IFRS 13 on its financial statements.

3.22.5 Financial Instruments

IFRS 9, *Financial Instruments* (“IFRS 9”), was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The new standard requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also provides for new measurement guidance for financial liabilities designated at fair value through profit or loss. In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2015 and will be effective for the year ending December 31, 2015. The Corporation has not yet determined the impact of these standards on its financial statements.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

4. FIRST-TIME ADOPTION OF IFRS

These are the Corporation's first consolidated annual financial statements prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2010. The Corporation has applied IFRS 1 in preparing these consolidated financial statements.

4.1 First-time adoption exceptions and exemptions applied

In preparing these consolidated financial statements in accordance with IFRS 1, the Corporation has applied the relevant mandatory exceptions and certain optional exemptions from full retrospective application of IFRS, which are discussed below.

- (i) Mandatory exceptions from full retrospective application followed by the Corporation

The Corporation has applied the use of estimates exception from retrospective application. The Corporation has used estimates under IFRS that are consistent with those applied under GAAP, with adjustment for accounting policy differences, unless there was objective evidence that those estimates were in error.

Other mandatory exceptions in IFRS 1 were not applicable because there were no significant differences in management's application of GAAP in these areas.

- (ii) Optional exemptions from full retrospective application elected by the Corporation

The Corporation has elected not to apply IFRS 3, *Business Combinations* retrospectively to business combinations that occurred before the date of transition.

4.2 Reconciliation between IFRS and GAAP

IFRS 1 requires an entity to reconcile equity, total comprehensive income and cash flows from amounts reported under previous GAAP. The adjustments to the balance sheet and statement of comprehensive income have resulted in reclassifications of various amounts on the statement of cash flows; however, adoption of IFRS did not have a material impact on total operating, investing or financing cash flows.

The comparative information for 2010 included herein has been restated from GAAP to IFRS. Notes 4.3 and 4.4 provide reconciliations from GAAP to IFRS for the respective periods noted for equity and total comprehensive income (loss).

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

4. FIRST TIME ADOPTION OF IFRS (Continued)

4.3 Reconciliation of equity

		January 1, 2010		
		Equity Attributable to Owners of the Corporation	Non-controlling Interest	Total Equity
	Note	\$	\$	\$
As reported under GAAP as of December 31, 2009		36,853	-	36,853
Reclassification of non-controlling interest to equity under IFRS	4.6	-	20,272	20,272
Differences increasing (decreasing) reported amounts:				
Deferred income tax assets	4.5(i)	4,940	-	4,940
Property and equipment	4.5(ii)	1,785	-	1,785
Current portion of long-term debt	4.5(ii)	(518)	-	(518)
Long-term debt	4.5(ii)	(1,268)	-	(1,268)
Convertible secured debentures	4.5(iii)	(3,160)	-	(3,160)
		1,779	-	1,779
As reported under IFRS		38,632	20,272	58,904

		December 31, 2010		
		Equity Attributable to Owners of the Corporation	Non-controlling Interest	Total Equity
	Note	\$	\$	\$
As reported under GAAP as of December 31, 2010		26,247	-	26,247
Reclassification of non-controlling interest to equity under IFRS	4.6	-	21,551	21,551
Differences increasing (decreasing) reported amounts:				
Goodwill	4.5(i)	(8,791)	-	(8,791)
Deferred income tax assets	4.5(i)	7,741	-	7,741
Convertible secured debentures	4.5(iii)	(3,370)	-	(3,370)
		(4,420)	-	(4,420)
As reported under IFRS		21,827	21,551	43,378

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

For the years ended December 31, 2011 and 2010

4. FIRST TIME ADOPTION OF IFRS (Continued)

4.4 Reconciliation of comprehensive income (loss)

	Note	Year Ended December 31, 2010 \$
Net loss as reported under GAAP		(596)
Add back non-controlling interest	4.6	27,350
Differences increasing (decreasing) reported net loss:		
General and administrative expenses	4.5(ii)	(140)
Depreciation and amortization	4.5(ii)	99
Interest expense, net of interest income	4.5(iii)	560
Loss on foreign currency	4.5(iii)	(105)
Decrease in value of convertible secured debentures, net of taxes	4.5(iii)	(550)
Decrease in value of exchangeable interest liability, net of taxes	4.5(i)	(6,062)
		(6,198)
Comprehensive income reported under IFRS		20,556
Attributable to:		
Owners of the Corporation		(6,794)
Non-controlling interest		27,350
		20,556

Certain of the amounts in the tables in notes 4.3 and 4.4 above differ from the amounts disclosed previously in published 2011 interim financial statements as described in note 4.5 below.

4.5 Description of adjustments impacting assets, liabilities, equity and comprehensive income (loss)

(i) Exchangeable interest liability

Under IFRS, the exchangeable interest liability is accounted for as a financial liability and all changes in it are reflected in comprehensive income; whereas under GAAP, changes in the fair value of the exchangeable interest liability were treated as adjustments to the purchase price and to goodwill and, therefore, did not impact comprehensive income (loss). Under IFRS, differences between book and tax values of assets and liabilities related to the exchangeable interest liability are considered temporary taxable differences and the tax effects of these differences are reflected as deferred tax assets and liabilities; whereas under GAAP, such differences were considered permanent tax differences and not recorded as future tax assets and liabilities. The effect of such change in accounting treatment is included in the reconciliations in notes 4.3 and 4.4 above. Because of the differences in accounting treatment, the previously reported amount of goodwill as of December 31, 2010 decreased by \$8,791 to \$87,278 under IFRS compared to the reported GAAP amounts (note 4.3) and the previously reported amount of comprehensive income for 2010 decreased by \$6,062 (note 4.4).

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Notes to Consolidated Financial Statements

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

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4. FIRST TIME ADOPTION OF IFRS (Continued)

After reporting for the three months ended March 31, 2011, further adjustments to the amounts for deferred taxes were identified which resulted in corresponding increases in shareholders' equity of \$3,104 as of January 1, 2010 and \$4,694 as of December 31, 2010. For the year ended December 31, 2010, these further adjustments led to an increase in comprehensive income of \$2,916.

(ii) Lease agreement with South Dakota Interventional Pain Institute, LLC ("SDIPI")

In June 2009, SFSH entered into a lease agreement with SDIPI for a magnetic resonance imager and related radiology equipment ("leased assets"). Under GAAP, this lease was accounted for as an operating lease until March 2010, at which time the lease terms were finalized by the parties and it was determined that this lease arrangement represented a finance lease. Taking into account that SFSH had the use of the leased assets as of January 1, 2010, upon transition to IFRS, it was determined that the constructive lease agreement was in place between the parties and should have been recorded as a finance lease as of the transition date. Therefore, the value of the leased assets as of January 1, 2010 (\$1,786) was included in the consolidated "Property and equipment" amount with the corresponding long-term liability recorded in the consolidated "Long-term debt" and the portion paid in 2010 was included in the "Current portion of long-term debt".

The monthly payments to SDIPI which were classified as part of "General and administrative" expenses in the year ended December 31, 2010 under GAAP were reclassified between "Depreciation and amortization" and "Interest expense, net of interest income" under IFRS.

(iii) Accounting for convertible secured debentures

Under IFRS, the Corporation designated the convertible secured debentures, including host debt instrument and conversion feature, as a financial liability at FVTPL. In the previously reported IFRS interim financial statements, these convertible secured debentures were recorded at historical cost, adjusted to market value on Conversion. The debt component was measured at amortized cost using the effective interest rate method, while the equity component was measured at the issue date using the residual method with no future changes in value recognized.

Because of the differences in accounting treatment, during the preparation of its annual consolidated financial statements, the Corporation has made immaterial corrections to the previously reported IFRS balance sheets as at January 1, 2010 and December 31, 2010, and the IFRS statement of comprehensive income for the year ended December 31, 2010 for changes in value of the convertible secured debentures, deferred tax asset, interest expense, foreign exchange and income tax expense.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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

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4. FIRST TIME ADOPTION OF IFRS (Continued)

4.6 Other presentation differences

A reclassification has been recorded for the re-allocation of the non-controlling interest which is included in equity under IFRS rather than in the liability section of the balance sheet under GAAP. On the statement of comprehensive income, the non-controlling interest is reflected as an allocation of income below the total comprehensive income line.

4.7 Other adjustments

As of January 1, 2010, goodwill and non-controlling interest were increased by \$4,672 compared to the amounts reported under GAAP as of December 31, 2009. The Corporation has determined that the amount of these changes was not material to its consolidated financial statements for any prior interim or annual periods previously reported under GAAP.

5. ACQUISITION OF ADDITIONAL INTEREST IN OSH

In April 2010, pursuant to the terms of the exchange agreement with the Corporation, the holders of the non-controlling interest in OSH ("non-controlling owners") exchanged 0.75% of the ownership in the Center for IPS units of the Corporation which were valued at \$695 (Cdn\$700) based on the market value of the IPS units on the date of the transaction. This consideration was allocated between subordinated notes payable and share capital as presented in notes 13.1 and 13.3, respectively.

In April 2011, the non-controlling owners of OSH exchanged a further 0.75% of the ownership in the Center for IPS units of the Corporation which were valued at \$845 (Cdn\$813) based on the market value of the IPS units on the date of the transaction. This consideration was allocated between subordinated notes payable and share capital as presented in notes 13.1 and 13.3, respectively.

In June 2011, the non-controlling owners of OSH exchanged 0.88% of the ownership of the Center for common shares of the Corporation which were valued at \$1,008 (Cdn\$980) based on the market value of the common shares on the date of the transaction. This consideration was recorded in share capital of the Corporation as presented in note 13.3.

6. REDEMPTION OF INDIRECT INTEREST IN BARRANCA

On August 13, 2010, the holders of the non-controlling interest in Barranca redeemed the Corporation's indirect 51% interest in the Center for consideration that approximated the carrying value of the net assets of the Center. The results of the operations of Barranca through the date of the redemption are included in the consolidated statement of comprehensive income.

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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7. INVESTMENT IN AND LOAN RECEIVABLE FROM AN ASSOCIATE

In March 2010, the Corporation made a 43.6% equity investment in SDIPI for \$240. Concurrent with the investment, the Corporation advanced \$200 to SDIPI, repayable over ten years and bearing interest of 5.6% per annum, which is consistent with market interest rates. As a result of the 43.6% equity position, the Corporation has significant influence and the investment is accounted for on an equity basis.

Investment in and loan receivable from an associate consists of:

	Equity Investment \$	Loan Receivable \$	Total Investment and Loan Receivable \$
2010			
Initial contribution	240	200	440
Share of equity loss	(3)	-	(3)
Distributions received	(33)	-	(33)
Balance at December 31, 2010	204	200	404
2011			
Balance at December 31, 2010	204	200	404
Share of equity loss	(15)	-	(15)
Return of capital	(5)	-	(5)
Distributions received	(22)	-	(22)
Repayments	-	(6)	(6)
Balance at December 31, 2011	162	194	356

MEDICAL FACILITIES CORPORATION

Notes to Consolidated Financial Statements

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For the years ended December 31, 2011 and 2010

8. PROPERTY AND EQUIPMENT

	Land and Improvements \$	Construction in Progress \$	Building and Improvements \$	Equipment and Furniture \$	Total \$
Cost					
Balance at January 1, 2010	4,127	5,565	45,837	27,118	82,647
Additions	72		9,850	2,579	12,501
Construction in progress placed in service	-	(5,565)	-	-	(5,565)
Disposals	(14)	-	(811)	(1,960)	(2,785)
Balance at December 31, 2010	4,185	-	54,876	27,737	86,798
Balance at December 31, 2010	4,185	-	54,876	27,737	86,798
Additions	14	-	745	2,408	3,167
Disposals	-	-	(56)	(957)	(1,013)
Balance at December 31, 2011	4,199	-	55,565	29,188	88,952
Accumulated Depreciation					
Balance at January 1, 2010	-	-	(8,003)	(15,820)	(23,823)
Charged for the year	-	-	(2,943)	(3,796)	(6,739)
Disposals	-	-	793	1,592	2,385
Balance at December 31, 2010	-	-	(10,153)	(18,024)	(28,177)
Balance at December 31, 2010	-	-	(10,153)	(18,024)	(28,177)
Charged for the year	-	-	(3,259)	(3,626)	(6,885)
Disposals	-	-	14	904	918
Balance at December 31, 2011	-	-	(13,398)	(20,746)	(34,144)
Carrying Amounts					
At January 1, 2010	4,127	5,565	37,834	11,298	58,824
At December 31, 2010	4,185	-	44,723	9,713	58,621
At December 31, 2011	4,199	-	42,167	8,442	54,808

Included in the equipment and furniture for the years 2011 and 2010 is certain equipment under long-term lease agreements as follows:

	2011 \$	2010 \$
Equipment	2,094	2,094
Less accumulated depreciation	(986)	(623)
Total	1,108	1,471

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9. GOODWILL AND OTHER INTANGIBLES

9.1 Goodwill

The Corporation performed its annual impairment test for goodwill and other intangibles with indefinite lives as at December 31, 2011, December 31, 2010 and January 1, 2010 and determined that there was no impairment of goodwill and other intangibles with indefinite lives.

9.2 Other intangibles

	Hospital Operating Licenses	Medical Charts and Records	Referral Sources	Trade Names	Total
	\$	\$	\$	\$	\$
Cost					
Balance at January 1, 2010	714	6,981	158,467	9,826	175,988
Disposal of Barranca's assets	-	-	(1,225)	-	(1,225)
Balance at December 31, 2010	714	6,981	157,242	9,826	174,763
Balance at December 31, 2010	714	6,981	157,242	9,826	174,763
Balance at December 31, 2011	714	6,981	157,242	9,826	174,763
Accumulated Amortization					
Balance at January 1, 2010	(714)	(5,924)	(60,029)	-	(66,667)
Amortization charges	-	(892)	(12,345)	-	(13,237)
Disposal of Barranca's assets	-	-	1,225	-	1,225
Balance at December 31, 2010	(714)	(6,816)	(71,149)	-	(78,679)
Balance at December 31, 2010	(714)	(6,816)	(71,149)	-	(78,679)
Amortization charges	-	(165)	(12,345)	-	(12,510)
Balance at December 31, 2011	(714)	(6,981)	(83,494)	-	(91,189)
Carrying Amounts					
At January 1, 2010	-	1,057	98,438	9,826	109,321
At December 31, 2010	-	165	86,093	9,826	96,084
At December 31, 2011	-	-	73,748	9,826	83,574
Amortization period (years)	5	5-7	10-15	N/A (indefinite life)	

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10. LONG-TERM DEBT

	December 31,				
	2011			2010	
	Authorized	Balance	Effective Interest Rate	Balance	Effective Interest Rate
	\$	\$	%	\$	%
Revolving credit facilities					
SFSH	6,400	5,188	2.31	5,488	2.31
DPSC	2,000	26	4.50	1,095	4.50
BHSH	6,000	750	3.25	2,750	3.25
OSH	5,000	3,508	3.00	3,475	5.00
Newport Coast	3,500	-	3.55	-	2.25
	22,900	9,472		12,808	
Notes payable					
SFSH	18,597	18,597	4.85	19,788	4.87
DPSC	3,600	3,487	4.50	3,600	4.50
BHSH	10,688	10,688	5.36	11,486	5.35
OSH	1,022	914	2.99	1,159	5.00
Newport Coast	-	-	N/A	51	4.90
	33,907	33,686		36,084	
Capital leases					
SFSH (note 11)	-	814	N/A	1,476	N/A
		43,972		50,368	
Less current portion		(11,889)		(9,650)	
		32,083		40,718	

The revolving credit facility for SFSH bears interest at one month London Interbank Offered Rate plus 2.0% and notes payable bear fixed interest rates. The credit facility and note payable for DPSC bear interest at a rate that varies with prime but has a minimum of 4.5%. The credit facilities for BHSH vary with prime and notes payable bear fixed interest rates. The OSH credit facility and note payable bear fixed interest rates. The credit facility for Newport Coast bears interest at a rate that varies with prime.

SFSH's credit facility and notes payable mature between 2012 and 2016. DPSC's credit facility matures on July 15, 2012 and note payable matures on December 1, 2020. BHSH's credit facilities and notes payable mature during 2014 and 2015. The credit facility related to OSH is due in full on August 11, 2012 and the note payable matures on August 15, 2014. Newport Coast's credit facility matures on May 1, 2012.

Each credit facility is secured by a security interest in all property and a mortgage on real property owned by the respective Center. These credit facilities contain certain restrictive financial and non-financial covenants. As of the reporting date, there were no breaches of these covenants.

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Notes to Consolidated Financial Statements

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10. LONG-TERM DEBT (Continued)

The following are the future maturities of long-term debt, including capital leases (note 11), for the years ending December 31:

	\$
2012	11,889
2013	8,071
2014	13,318
2015	7,426
2016 and thereafter	3,268
Future maturities of long-term debt	43,972

11. CAPITAL LEASES

SFSH leases certain equipment under long-term lease agreements which have been capitalized. Minimum future lease payments for the capital leases are as follows:

	\$
2012	622
2013	202
Total minimum lease payments	824
Less interest	(10)
Present value of minimum lease payments	814

12. CONVERTIBLE SECURED DEBENTURES

On April 14, 2008, the Corporation issued, in a public offering, Cdn\$43,000 (US\$42,124) aggregate principal amount of 7.5% convertible secured debentures. The convertible secured debentures pay interest semi-annually in arrears on April 30 and October 30 of each year. The convertible secured debentures mature on April 30, 2013.

The convertible secured debentures are hybrid financial instruments and the Corporation accounts for them as a single financial liability measured at FVTPL with unrealized gains or losses recorded in comprehensive income.

In November 2010, the Corporation received regulatory approval for a normal course issuer bid under which the Corporation may purchase up to Cdn\$3,440 aggregate principal amount of its outstanding convertible secured debentures during the period from November 24, 2010 to November 23, 2011. In 2010, the Corporation purchased Cdn\$18 aggregate principal amount of its outstanding convertible secured debentures for a total consideration of \$18. In 2011, the Corporation purchased Cdn\$3 aggregate principal amount of its outstanding convertible secured debentures for a total consideration of \$3.

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12. CONVERTIBLE SECURED DEBENTURES (Continued)

The following table represents changes in the convertible secured debentures for the years 2011 and 2010:

	\$
Balance at January 1, 2010	42,345
Convertible secured debentures purchased and cancelled under the normal course issuer bid	(18)
Increase in fair value of convertible secured debentures at market price	626
Unrealized loss on foreign currency translation (note 19)	2,423
Balance at December 31, 2010	45,376
Balance at December 31, 2010	45,376
Convertible secured debentures purchased and cancelled under the normal course issuer bid	(3)
Decrease in fair value of convertible secured debentures at market price	(1,299)
Unrealized gain on foreign currency translation (note 19)	(964)
Balance at December 31, 2011	43,110

13. SUBORDINATED NOTES PAYABLE AND SHARE CAPITAL

Pursuant to the Conversion discussed in note 1 above, the Corporation converted its IPS units, comprised of common shares and subordinated notes payable, into new common shares of the Corporation on May 31, 2011. Each IPS unit represented: (a) Cdn\$5.90 aggregate principal amount of 12.5% subordinated notes payable of the Corporation and (b) one common share of the Corporation. Holders of IPS units had the right to separate the IPS units into the common shares and subordinated notes represented thereby. Separation of the IPS units would occur automatically upon a repurchase, redemption or maturity of the subordinated notes. Similarly, any holder of common shares and subordinated notes could, at any time, combine the applicable number of common shares and principal amount of subordinated notes to form IPS units.

13.1 Subordinated notes payable

At December 31, 2010, the aggregate principal of the subordinated notes payable outstanding was Cdn\$167,069. The subordinated notes payable were reflected on an unamortized cost basis as follows:

	\$
Balance at January 1, 2010 before financing costs	159,202
Less financing costs related to subordinated notes payable	(7,457)
Net balance at January 1, 2010	151,745
Balance at January 1, 2010	159,202
Subordinated notes payable issued for acquisition of additional interest in OSH (note 5)	377
IPS units purchased and cancelled under normal course issuer bids (note 13.5)	(613)
Unrealized loss on foreign currency translation (note 19)	9,010
Balance at December 31, 2010 before financing costs	167,976
Less financing costs related to subordinated notes payable	(6,942)
Net balance at December 31, 2010	161,034

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13. SUBORDINATED NOTES PAYABLE AND SHARE CAPITAL (Continued)

The subordinated notes payable were due to mature on March 29, 2014 subject to extension by the Corporation for two additional successive five-year terms if a majority of the holders consented to the extensions and certain other conditions were satisfied. Commencing March 29, 2009, the Corporation had the option to redeem the subordinated notes payable in whole or in part at any time, for cash, at a redemption price including a premium over the principal amount of the subordinated notes payable, which premium decreased over time.

The Conversion resulted in the extinguishment of \$166,073 of principal value of subordinated notes payable calculated on an amortized cost basis. Costs related to the Conversion of \$1,146 were recorded as a reduction of shareholders' equity.

	\$
Balance at December 31, 2010	167,976
Subordinated notes payable issued for acquisition of additional interest in OSH (note 5)	395
IPS units purchased and cancelled under normal course issuer bid (note 13.5)	(76)
Unrealized loss on foreign currency translation (note 19)	4,506
Balance at May 31, 2011 before financing costs	172,801
Less financing costs related to subordinated notes payable	(6,728)
Net balance at May 31, 2011	166,073
Extinguishment of subordinated notes payable as a result of the Conversion	(166,073)
Balance at December 31, 2011	-

13.2 Embedded derivatives in the subordinated notes payable

Prior to the Conversion, the Corporation identified the following embedded derivatives in the subordinated notes payable that required separate presentation at fair value in these consolidated financial statements:

- (i) An early redemption option ("Early Redemption Option"); and
- (ii) An extension option ("Renewal Option").

The Early Redemption Option permitted the Corporation to call its outstanding subordinated notes payable after the fifth anniversary date for a premium over the principal amount of 3% in 2011, 2% in 2012, 1% in 2013 and at par in 2014 and thereafter.

Under the Renewal Option, the Corporation could extend the maturity of its subordinated notes payable for two additional successive five-year terms subject to the consent of debtholders and other conditions.

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13. SUBORDINATED NOTES PAYABLE AND SHARE CAPITAL (Continued)

The extinguishment of the Corporation's subordinated notes payable resulted in the transfer of the value of the subordinated notes payable Early Redemption Option accrued through the date of the Conversion to the share capital section of the shareholders' equity.

	\$
Balance at January 1, 2010	18,201
Increase in value of subordinated notes payable early redemption option	10,338
Balance at December 31, 2010	28,539
Decrease in value of subordinated notes payable early redemption option	(1,185)
Balance at May 31, 2011	27,354
Transfer to share capital	(27,354)
Balance at December 31, 2011	-

13.3 Share capital

The following table represents changes in the number and value of common shares issued and outstanding for the reporting periods:

	Number of Common Shares	\$
Opening balance at January 1, 2010	28,359,506	98,794
Common shares issued for acquisition of additional interest in OSH in April 2010 (note 5)	64,443	317
Common shares purchased and cancelled under the terms of normal course issuer bid (note 13.5)	(107,200)	(347)
Balance at December 31, 2010	28,316,749	98,764
Opening balance at December 31, 2010	28,316,749	98,764
Common shares issued for acquisition of additional interest in OSH in April 2011 (note 5)	64,501	450
Common shares purchased and cancelled under the terms of normal course issuer bid (note 13.5)	(12,600)	(82)
Balance at May 31, 2011	28,368,650	99,132
Retirement of common shares on Conversion	(28,368,650)	(99,132)
New common shares issued on Conversion	28,368,650	362,403
Common shares issued for acquisition of additional interest in OSH in June 2011 (note 5)	77,692	1,008
Common shares purchased and cancelled under the terms of normal course issuer bid (note 13.5)	(136,300)	(1,476)
Balance at December 31, 2011	28,310,042	361,935

13.4 Earnings (loss) per share

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

	2011 \$	2010 \$
Loss for the period attributable to owners of the Corporation	(15,370)	(6,794)
Divided by weighted average number of common shares outstanding for the period	28,353,578	28,367,349
Basic loss per share attributable to owners of the Corporation	(0.542)	(0.240)

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13. SUBORDINATED NOTES PAYABLE AND SHARE CAPITAL (Continued)

For 2011 and 2010, issuance of common shares (IPS units prior to Conversion) upon exchange of the outstanding exchangeable interest liability and conversion of the outstanding convertible secured debentures would have been anti-dilutive and, therefore, the calculation of fully diluted loss per share is not presented.

13.5 Normal course issuer bids

Pursuant to the terms of the Corporation's normal course issuer bids in 2010, the Corporation purchased 107,200 of its IPS units, consisting of subordinated notes payable and common shares, for a total consideration of \$960. The consideration paid was \$613 for the subordinated notes payable and \$347 for the share capital (notes 13.1 and 13.3, respectively).

Pursuant to the terms of the Corporation's normal course issuer bids in 2011, the Corporation purchased 12,600 of its IPS units, consisting of subordinated notes payable and common shares, for a total consideration of \$158. The consideration paid was \$76 for the subordinated notes payable and \$82 for the share capital (notes 13.1 and 13.3, respectively).

The Corporation also purchased 136,300 of its new common shares for a total consideration of \$1,476, recorded in share capital (note 13.3).

All IPS units and common shares acquired under these bids were cancelled.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

14.1 Foreign exchange forward contracts

At December 31, 2011, the Corporation held foreign exchange forward contracts with three financial institutions under which the Corporation sells U.S. dollars each month for a fixed amount of Canadian dollars on the following terms:

Contract Dates	US\$ to be delivered	Cdn\$ to be received	Cdn\$ per US\$ (weighted average)
Jan 2012 – Dec 2012	31,150	34,619	1.1114
Jan 2013 – Dec 2013	35,000	36,147	1.0328
Jan 2014 – Aug 2014	24,000	24,262	1.0109
	90,150	95,028	

As of December 31, 2011, the fair value of the outstanding contracts with two of the financial institutions was a net asset of \$3.1 million (December 31, 2010: a net asset of \$3.8 million) and the fair value of the outstanding contracts with the other financial institution was a net liability of \$0.4 million (December 31, 2010: a net liability of \$0.3 million), which have been recognized in the Corporation's consolidated financial statements for the year ended December 31, 2011.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Corporation has deposited \$4.5 million (2010: \$4.5 million) as collateral to ensure its performance under these contracts. The deposit is classified as “Restricted cash” on the consolidated balance sheet.

14.2 Exchangeable interest liability

Concurrent with the acquisition of its interests in four of the Centers, the Corporation entered into exchange agreements with the vendors who originally retained a 49% non-controlling interest in these Centers. Pursuant to the terms of these exchange agreements, the non-controlling interest holders in each of the Centers received the right to exchange a portion of their interest in their respective Centers (“Exchangeable Interest”) for common shares (IPS units, prior to Conversion) 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.

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

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

- (i) The exchange right is considered to have been fully exchanged at the original dates of acquisition of each of the four Centers in which Exchangeable Interests are held, resulting in the purchase of a further 14% interest in each such Center for an amount (the “imputed purchase price”) proportionate to the price paid for the original 51% interest in such Centers. The imputed purchase price was allocated to the fair value of the assets acquired, including goodwill and other intangibles, consistent with the acquisition of the initial 51% interest.
- (ii) The corresponding amount of the imputed purchase price relating to the 14% interest 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 comprehensive 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 Center.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

- (iv) The distributions made by each Center, that relate to the ownership interest therein that is the subject of the outstanding Exchangeable Interest, are treated as interest expense in the Corporation's consolidated statement of comprehensive income. The non-controlling interest in the results of operations of the Centers is correspondingly reduced.
- (v) The calculation of basic and diluted earnings (loss) per share involves certain modifications, if applicable, to comprehensive income (loss) as reported and the number of issued and outstanding common shares as set out in note 13.4.

The number of common shares (IPS units, prior to Conversion) to be potentially issued for the exchangeable interest liability and the fair value of the exchangeable interest liability as at December 31, 2011 and December 31, 2010 are as follows:

	2011	2010
Number of common shares/IPS units to be potentially issued for exchangeable interest liability	6,288,026	5,464,739
Fair value of the exchangeable interest liability	\$ 72,031	\$ 59,010

14.3 Fair values and classification of financial instruments

The Corporation obtains the fair value of foreign exchange forward contracts from the counterparties to such contracts. Prior to the Conversion, the fair value of the Early Redemption Option related to the subordinated notes payable was determined using a derivative valuation model that requires various assumptions, including the spread between the redemption strike price and market yields, volatility of interest rates and the remaining time to maturity of the Early Redemption Option. Also prior to the Conversion, the fair value of the subordinated notes payable was determined using a discounted cash flow model. The fair value of the convertible secured debentures is determined based on the closing trading price of the security at each reporting period. The fair values of notes payable and term loans at the Centers' level are not readily determinable. The fair values of all other financial instruments of the Corporation, due to the short-term nature of these instruments, approximate their book values.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The following table presents the carrying value and classification of the Corporation's financial instruments as of December 31, 2011 and December 31, 2010:

	2011 \$	2010 \$
Financial assets		
FVTPL		
Foreign exchange forward contracts	3,076	3,835
Subordinated notes payable early redemption option	-	28,539
Loans and receivable (carried at amortized cost)		
Cash and cash equivalents	17,984	19,062
Short-term bank deposits	9,034	12,531
Accounts receivable	41,508	40,818
Long-term bank deposits	2,526	-
Restricted cash	4,483	4,483
Investment in and loan receivable from an associate	356	404
Financial liabilities		
FVTPL		
Foreign exchange forward contracts	424	284
Convertible secured debentures	43,110	45,376
Exchangeable interest liability	72,031	59,010
Other liabilities (carried at amortized cost)		
Accrued interest payable	526	2,262
Dividends payable	2,553	849
Accounts payable	7,299	6,877
Accrued liabilities	12,602	11,822
Long-term debt	43,972	50,368
Subordinated notes payable	-	161,034

The financial instruments of the Corporation that are recorded at fair value have been classified into levels using a fair value hierarchy. The three levels of the fair value hierarchy are defined below:

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).

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The following tables represent the fair value hierarchy of the Corporation's financial assets and liabilities that were recognized at fair value as of December 31, 2011 and December 31, 2010.

	2011			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Financial assets				
Foreign exchange forward contracts	-	3,076	-	3,076
Financial liabilities				
Foreign exchange forward contracts	-	424	-	424
Convertible secured debentures	43,110	-	-	43,110
Exchangeable interest liability	-	72,031	-	72,031
Total	43,110	75,531	-	118,641

	2010			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Financial assets				
Foreign exchange forward contracts	-	3,835	-	3,835
Subordinated notes payable early redemption option	-	-	28,539	28,539
Financial liabilities				
Foreign exchange forward contracts	-	284	-	284
Convertible secured debentures	45,376	-	-	45,376
Exchangeable interest liability	-	59,010	-	59,010
Total	45,376	63,129	28,539	137,044

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

14.4.1 Foreign Exchange Risk

Dividends to common shareholders of the Corporation, interest on convertible secured debentures and a portion of the Corporation's expenses are paid in Canadian dollars while all of its revenues are in U.S. dollars. To mitigate this risk, the Corporation enters into foreign exchange forward contracts to economically hedge its exposure to the fluctuation of the exchange rate between U.S. and Canadian currencies. The Corporation has foreign exchange hedging policies in place and the execution of these policies is monitored by a designated hedging committee of the Board of Directors.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The values of foreign exchange forward contracts, convertible secured debentures and, prior to the Conversion, subordinated notes payable as reported in the Corporation's financial statements are dependent on the movement of the exchange rate between U.S. and Canadian dollars. Except for the impact on the value of the foreign exchange forward contracts (not readily available), a 1% change in the value of the Canadian dollar against the U.S. dollar, compared to the actual fluctuations in the exchange rate that occurred in the current period, would have had the following impact on comprehensive income (loss) for the years reported:

Exchange rate change	2011 \$	2010 \$
1% strengthening of the Canadian dollar	(2,194)	(2,115)
1% weakening of the Canadian dollar	2,151	2,109

14.4.2 Credit Risk

The Corporation faces the following credit risks.

Accounts Receivable

The Centers receive payment for services rendered from federal and state agencies, private insurance carriers, employers, managed care programs and patients. In 2011, two of these payors contributed 25.3% (2010: 25.8%) and 19.2% (2010: 18.8%), respectively, to the facility service revenue. A portion of the facility service revenue is received directly from the patients (either in the form of co-payments and/or deductibles under insurance policies or full payment if a patient does not have insurance coverage). Amounts considered non-collectible are provided for and monitored on an on-going basis. The Corporation reviews reimbursement rates and aging of the accounts receivable to monitor its credit risk exposure.

The table below summarizes the patient accounts receivable and allowance for non-collectible amounts as at December 31, 2011 and December 31, 2010:

	2011 \$	2010 \$
Accounts receivable (net of allowance for contractual adjustments)	46,992	46,296
Allowance for non-collectible receivable balances	(5,484)	(5,478)
Net accounts receivable	41,508	40,818

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Concentration of Financial Institutions

The Corporation regularly enters into foreign exchange forward contracts and places excess funds for investment with certain financial institutions. The counterparties to the foreign exchange forward contracts are three banking institutions and the Corporation considers the risk of their default on the contracts to be minimal. Investment of excess funds is guided by the investment policy of the Corporation that (i) prescribes the eligible types of investments and (ii) establishes limits on the amounts that can be invested with any one financial institution.

14.4.3 Interest Rate Risk

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

At the reporting dates, the interest rate profile of the Corporation's interest-bearing financial liabilities was:

	2011 \$	2010 \$
Facilities with fixed interest rates	77,631	239,211
Facilities with variable interest rates	9,451	17,567
Total	87,082	256,778

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 \$41 (2010: \$80).

14.4.4 Price Risk

The Centers routinely purchase materials and supplies for use in surgical and other procedures performed at the Centers. Certain materials and supplies are billed to payors based on cost, which serves to mitigate the risk associated with price changes. The Centers also enter into purchase agreements which include negotiated pricing that reduces pricing risk.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

14.4.5 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, 2011, are as follows:

Contractual Obligations	Carrying values at Dec. 31, 2011	Future payments (including principal and interest)				
		Total	Less than			After 5 years
			1 year	1-3 years	4-5 years	
	\$	\$	\$	\$	\$	\$
Accrued interest payable	526	526	526	-	-	-
Dividends payable	2,553	2,553	2,553	-	-	-
Accounts payable	7,299	7,299	7,299	-	-	-
Accrued liabilities	12,602	12,602	12,602	-	-	-
Revolving credit facilities	9,472	9,621	8,859	762	-	-
Notes payable and term loans	33,686	38,030	4,152	22,638	8,350	2,890
Finance lease obligation	814	826	623	203	-	-
Operating leases and other commitments (not recorded in the financial statements)	-	13,078	3,915	6,107	1,811	1,245
Convertible secured debentures	43,110	47,421	3,233	44,188	-	-
Total contractual obligations	110,062	131,956	43,762	73,898	10,161	4,135

The Corporation's three-year revolving line of credit of Cdn\$35.0 million with National Bank Financial ("NBF"), which was to expire on January 13, 2012, was renewed on January 4, 2012. As part of the renewal, the borrowing amount has been increased to Cdn\$50.0 million and maturity extended to July 4, 2015.

The Corporation anticipates renewing, extending or replacing its revolving credit facilities which fall due during 2012 and expects that cash flows from operations and working capital will be adequate to meet future payments on other contractual obligations during 2012.

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15. 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 13), convertible secured debentures (note 12) and other debt facilities at the corporate level.

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

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

In order to maintain or adjust the capital structure, the Corporation may enter into or repay credit facilities, adjust the amount of dividends paid to common shareholders, repurchase its publicly traded securities or issue new shares or convertible debt. During the twelve-month period ended December 31, 2011, the Corporation has returned capital to shareholders through the repurchase and cancellation of 12,600 IPS units and 136,300 new common shares under normal course issuer bids (note 13.5).

16. EMPLOYEE FUTURE BENEFITS

Benefits programs at the Centers include qualified 401(k) retirement plans which cover all employees who meet eligibility requirements. Each participating Center makes matching contributions subject to certain limits. In 2011, contributions made by the five Centers to such plans were \$1,083 (in 2010: \$994).

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17. INCOME TAXES

Prior to the Conversion, the U.S. tax returns for the Corporation were prepared on a consolidated basis and included balances and amounts attributable to both Canadian and U.S. entities. Subsequent to the Conversion, 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 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:

	2011 \$	2010 \$
Provision for Income Taxes		
U.S. income tax expense (recovery)		
Current	2,100	-
Deferred	11,519	1,518
	13,619	1,518
Canadian income tax expense (recovery)		
Current	-	-
Deferred	(4,725)	-
	(4,725)	-
Total income tax expense	8,894	1,518

Prior to the Conversion, the Centers were required to withhold and deposit with the government the tax on the portion of their income allocable to the Corporation (reduced by the annual amount of goodwill amortized for tax purposes and interest incurred at the corporate level) at a rate of 35%. Such withholdings are treated as instalments for the income tax owing by the Corporation, and after deducting taxes exigible, are refunded by the government after the Corporation files its tax return. The amount of the withholding tax deposited by the Centers is reduced by the estimated provision for the current income taxes as follows:

	2011 \$	2010 \$
Income Tax		
Withholding tax deposited	12,234	15,116
Provision for current income taxes	(2,100)	-
Income tax receivable	10,134	15,116

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17. INCOME TAXES (Continued)

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

	2011		2010	
	\$	%	\$	%
U.S. Income Taxes				
Consolidated pre-tax comprehensive loss	(6,476)	100.0	(5,276)	100.0
Expected tax recovery at the combined U.S. federal and state rate	(2,331)	36.0	(1,899)	36.0
Unrecognized deferred tax assets on capital loss	-	-	2,277	(43.2)
Impact of Conversion	19,767	(305.2)	-	-
Items attributable to exchangeable interest liability	1,489	(23.0)	770	(14.6)
Expenses attributable to Canadian entity that cannot be claimed on U.S. tax return	(5,614)	86.7	-	-
Non-deductible expenses	226	(3.5)	3	(0.1)
Other	82	(1.3)	367	(7.0)
Income tax expense	13,619	(210.3)	1,518	(28.8)
Canadian Income Taxes				
Non-consolidated pre-tax loss of Canadian entity	(3,679)	100.0	(36,900)	100.0
Expected tax recovery at the combined Canadian federal and provincial rate ⁽¹⁾	(1,039)	28.2	(11,439)	31.0
Non-deductible foreign exchange loss	1,078	(29.3)	3,291	(8.9)
Change in value of convertible secured debentures	(367)	10.0	-	-
Impact of foreign exchange rate differences	-	-	(1,875)	5.1
Change in unrecognized deferred tax assets	(4,725)	128.4	8,582	(23.3)
Difference between current and deferred enacted tax rate	(80)	2.2	1,549	(4.2)
Other	408	(11.1)	(108)	0.3
Income tax recovery	(4,725)	128.4	-	-

⁽¹⁾ The federal and provincial statutory income tax rates were reduced by 1.5% and 1.25%, respectively, in 2011.

As of December 31, 2011, the Corporation had net operating loss carry forwards for Canadian tax purposes totalling \$171,133 that are scheduled to expire in the following years:

	\$
2014	17,279
2015	20,613
2026	23,821
2027	24,173
2028	29,308
2029	27,899
2030	26,334
2031	1,706
Net operating loss carry forwards	171,133

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17. INCOME TAXES (Continued)

Losses related to the Canadian entity may only be used to offset the future income of the Canadian entity for Canadian income tax purposes. During the year ended December 31, 2011, the Corporation recognized deferred income tax assets of \$4,725 in respect of net operating loss carry forwards that will be offset against future taxable income in the Canadian entity. The taxable income will occur in future periods as a result of the Conversion and is considered probable.

The components of deferred income tax balances are as follows:

	2011 \$	2010 \$
U.S. Income Taxes		
Deferred income tax assets		
Allowance for doubtful accounts	1,400	1,109
Accrued liabilities and other	512	1,731
Goodwill and other intangibles	5,669	5,730
Net unrealized foreign exchange loss	-	12,888
Cumulative change in the value of convertible secured debentures	-	709
Cumulative change in the value of exchangeable interest liability	8,520	3,165
Net operating losses and deductions carry forwards	1,299	277
Total deferred income tax assets	17,400	25,609
Deferred income tax liabilities		
Property and equipment	(1,476)	(1,667)
Prepaid expenses and other	(83)	(99)
Subordinated notes payable early redemption option	-	(10,274)
Goodwill and other intangibles	(6,255)	(5,842)
Unrealized foreign exchange loss	(1,107)	-
Total deferred income tax liabilities	(8,921)	(17,882)
Net deferred income tax assets	8,479	7,727
 Canadian Income Taxes		
Deferred income tax assets		
Net operating loss carry forwards	42,765	43,264
Deferred financing costs	168	-
Deferred income tax liabilities		
Deferred financing costs	-	(1,622)
Net deferred income tax assets	42,933	41,642
Unrecognized deferred income tax assets	(38,208)	(41,642)
Net deferred income tax assets	4,725	-

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18. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income, included in the statement of comprehensive income consists of the following:

	2011 \$	2010 \$
Interest expense at Centers' level	2,177	2,155
Interest expense on subordinated notes payable	9,137	20,842
Interest expense on convertible secured debentures	3,260	3,133
Miscellaneous interest expense at corporate level	2	-
Amortization of available line of credit stand-by fees	256	188
Interest income at Centers' level	(17)	(53)
Interest income at corporate level	(233)	(96)
Interest expense, net of interest income	14,582	26,169

19. LOSS (GAIN) ON FOREIGN CURRENCY

Loss (gain) on foreign currency included in the statement of comprehensive income consists of the following:

	2011 \$	2010 \$
Unrealized loss (gain) on subordinated notes payable	4,506	9,010
Unrealized loss (gain) on convertible secured debentures	(964)	2,423
Unrealized loss (gain) on foreign exchange forward contracts	899	(2,496)
Unrealized loss (gain) on foreign currency	4,441	8,937
Realized loss (gain) on foreign exchange forward contracts which matured in the current period	(797)	(1,293)
Translation loss (gain) on cash balances denominated in Cdn\$	176	(316)
Loss (gain) on foreign currency	3,820	7,328

The unrealized loss on subordinated notes payable for 2011 represents the loss accrued on subordinated notes payable up to the date of Conversion, May 31, 2011. On Conversion, the cumulative loss of \$44,822 accrued since the issues of IPS units at various dates was included in the value of subordinated notes payable which were exchanged into common shares as part of the Conversion approved at the special meeting of subordinated noteholders on May 13, 2011.

20. RELATED PARTY TRANSACTIONS AND BALANCES

The Corporation and the Centers routinely enter into transactions with certain related parties. These parties are considered related through ownership in them by the holders of non-controlling interests in the respective Centers. Such transactions are in the normal course of operations and are at the exchange amounts agreed upon by the parties involved.

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20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

20.1 Management services and other contracts and real estate lease contracts

The Corporation and the Centers entered into transactions with the following related parties during the years ended December 31, 2011 and December 31, 2010:

Entity	Related Party	Nature of Relationships	Nature of Transactions
SFSH	Center Inn	Certain indirect non-controlling owners of SFSH are also owners of Center Inn.	Provision of laundry services to and office space lease by SFSH. The space lease agreement was terminated in 2010.
	Surgical Management Professionals, LLC ("SMP") and Sioux Falls Surgical Physicians, LLC ("Surgical Physicians")	Surgical Physicians own 49% of SFSH. SMP is owned by certain indirect non-controlling owners of SFSH.	SFSH pays to and receives reimbursements from SMP for various shared services, such as utilities, computer software, travel, etc.
	SMP		Provision of billing and coding services to SFSH.
	SMP		Provision of management services to DPSC and Barranca (up to August 2010).
	SDIPI	Surgical Physicians and the Corporation own equity interest in SDIPI.	Use of a facility and related equipment by SFSH.
	Anesthesiology Associates	Certain indirect non-controlling owners of SFSH are also owners of Anesthesiology Associates.	Provision of anaesthesia services to SFSH.
	Orthopedic Institute	Certain indirect non-controlling owners of SFSH are also owners of Orthopedic Institute.	Provision of physical and occupational therapy services.
	Medical Management Partners ("MMP")	The President of MMP became an employee of SFSH in November 2011.	Provision of hospitalist coverage and medical director services.
DPSC	Orthopedic Surgery Specialists ("OSS")	Certain indirect non-controlling owners of DPSC are also owners of OSS.	Provision of certain physicians' services to DPSC.
	Orthopedic Center of the Dakotas ("OCD")	Certain indirect non-controlling owners of DPSC are also owners of OCD.	Reimbursement by DPSC of salaries and benefits expenses incurred on behalf of DPSC.
BHSH	Black Hills Orthopedic and Spine Center ("BHOSC")	Certain indirect non-controlling owners of BHSH are also owners of BHOSC.	Provision of physical therapy services to BHSH.
	Neurosurgical & Spinal Surgery Associates ("NSSA")	Certain indirect non-controlling owners of BHSH are also owners of NSSA.	Provision of physical therapy services and intra-operative monitoring services to BHSH.
OSH	Integrated Medical Delivery, LLC ("IMD")	Certain indirect non-controlling owners of OSH own 36.4% of IMD.	Provision of office and management services to OSH.
	Indirect non-controlling physician owner		Lease of anaesthesiology equipment by OSH.
	Memorial Property Holdings, LLC ("MPH")	The majority of owners of MPH are also indirect non-controlling owners of OSH.	Lease of hospital building by OSH.
	MM Property Holdings, LLC ("MM Property")	MM Property is owned by two physicians who are indirect non-controlling owners in OSH.	Lease of additional office space by OSH.
Newport Coast	Indirect non-controlling physician owner		Payment of pain management directorship fees by Newport Coast.
Barranca	Indirect non-controlling physician owner		Payment of ophthalmology section management fees by Barranca.
Corporation	SC Meridian, LLC	SC Meridian, LLC is an entity controlled by an officer of the Corporation.	Aircraft charter by the Corporation.

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20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

The expenses resulting from the Corporation's and Centers' transactions with related parties are as follows:

	2011 \$	2010 \$
SFSH	2,910	2,512
DPSC	2,658	2,551
BHSH	495	558
OSH	4,530	4,540
Newport Coast	34	12
Barranca	-	49
Corporation	3	5
Total related party expenses	10,630	10,227

The amounts payable to (receivable from) the related parties are as follows:

	At December 31,	
	2011 \$	2010 \$
SFSH	883	1,450
DPSC	(10)	(9)
BHSH	19	51
OSH	175	218
Total payable to related parties	1,067	1,710

20.2 Other transactions

Certain of the physicians, who indirectly own the non-controlling interest in each of the Centers, routinely provide professional services directly to patients utilizing the facilities of the Centers and reimburse the Centers for the space and staff utilized. Also, certain of the physicians serve on the boards of management of the Centers and three such individuals perform the duties of Medical Director at the respective Centers and are compensated in recognition of their contribution to the Centers.

Included in the balance of "Prepaid expenses and other" is a note receivable from Oklahoma Physical Therapy ("OPT") in the amount of \$76. Certain owners of OPT are also indirect non-controlling owners of OSH.

The Corporation advanced loans to two indirect non-controlling physician owners of Newport Coast. As of December 31, 2011, \$17 was owing to the Corporation and as of December 31, 2010, \$91 was owing to the Corporation in respect of these loans.

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20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

20.3 Key management compensation

Key management personnel are comprised of three executive officers, namely the President, the Chief Executive Officer and Chief Financial Officer, and the directors of the Corporation. Key management compensation for the years ended December 31, 2011 and December 31, 2010 was as follows:

	2011 \$	2010 \$
Salaries and other short-term employee benefits for executive officers	1,052,761	1,504,964
Director compensation	709,235	706,095
Total key management compensation	1,761,996	2,211,059

Salaries and other short-term employee benefits for executive officers include cash payments to executive officers for their base salaries, bonuses, social security payments, medical insurance payments and payments under the Corporation's long-term incentive plan. Director compensation consists of retainer and meeting fees.

21. COMMITMENTS AND CONTINGENCIES

21.1 Commitments

In the normal course of operations, the Centers lease certain equipment under non-cancellable long-term leases and enter into various commitments with third parties. In addition, certain of the Centers lease their facility space from related (note 20) and non-related parties. Minimum payments for these leases are detailed in "Liquidity risk" section in note 14.4.5.

21.2 Contingencies

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