

Interim Condensed Consolidated Financial Statements of

**MEDICAL FACILITIES
CORPORATION**

For the three and nine months ended September 30, 2023
(Unaudited)
(In U.S. dollars)

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MEDICAL FACILITIES CORPORATION

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

	September 30, 2023 \$	December 31, 2022 \$
Note	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	26,979	34,926
Accounts receivable	52,945	64,040
Supply inventory	9,355	9,227
Prepaid expenses and other	4,830	10,549
Income tax receivable	2,384	587
Total current assets	96,493	119,329
Non-current assets		
Deferred income tax assets	60	20
Property and equipment	80,517	74,155
Right-of-use assets	43,663	50,564
Goodwill	120,623	120,623
Other intangibles	11,388	13,100
Total non-current assets	256,251	258,462
TOTAL ASSETS	352,744	377,791
LIABILITIES AND EQUITY		
Current liabilities		
Dividends payable	1,484	1,539
Accounts payable	22,239	26,402
Accrued liabilities	18,617	22,211
Income tax payable	15	-
Obligation for purchase of common shares	7 2,943	4,420
Current portion of long-term debt	16,004	9,729
Current portion of lease liabilities	10,127	10,183
Government stimulus funds repayable	4 11,957	12,335
Total current liabilities	83,386	86,819
Non-current liabilities		
Long-term debt	36,599	39,864
Lease liabilities	40,625	47,178
Deferred income tax liability	18,978	15,884
Corporate credit facility	24,000	36,000
Exchangeable interest liability	41,364	37,354
Total non-current liabilities	161,566	176,280
Total liabilities	244,952	263,099
Equity		
Share capital	349,244	353,237
Contributed surplus	702	1,192
Accumulated Deficit	(272,206)	(275,295)
Equity attributable to owners of the Corporation	77,740	79,134
Non-controlling interest	30,052	35,558
Total equity	107,792	114,692
TOTAL LIABILITIES AND EQUITY	352,744	377,791

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

MEDICAL FACILITIES CORPORATION

Interim Condensed Consolidated Statements of Changes in Equity

(In thousands of U.S. dollars)

(Unaudited)

	Note	Attributable to Owners of the Corporation			Total	Non-controlling Interest	Total Equity
		Share Capital	Contributed Surplus	Accumulated Deficit			
		\$	\$	\$	\$	\$	
2023							
Balance at January 1, 2023		353,237	1,192	(275,295)	79,134	35,558	114,692
Net income and comprehensive income for the period		-	-	7,621	7,621	16,067	23,688
Stock options income	14.1	-	(490)	-	(490)	-	(490)
Dividends to owners of the Corporation		-	-	(4,532)	(4,532)	-	(4,532)
Distributions to non-controlling interest		-	-	-	-	(20,325)	(20,325)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(8)	(8)
Sale of MFC Nueterra ASCs	1	-	-	-	-	(1,240)	(1,240)
Purchase of common shares under a normal course issuer bid	6	(5,470)	-	-	(5,470)	-	(5,470)
Change in obligation for purchase of common shares	7	1,477	-	-	1,477	-	1,477
Balance at September 30, 2023		349,244	702	(272,206)	77,740	30,052	107,792
2022							
Balance at January 1, 2022, as adjusted ⁽¹⁾		389,510	1,859	(263,817)	127,552	45,598	173,150
Net income (loss) and comprehensive income (loss) for the period		-	-	(2,131)	(2,131)	17,763	15,632
Stock options expense	14.1	-	138	-	138	-	138
Dividends to owners of the Corporation		-	-	(5,533)	(5,533)	-	(5,533)
Distributions to non-controlling interest		-	-	-	-	(19,434)	(19,434)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(37)	(37)
Purchase of common shares under a normal course issuer bid	6	(9,986)	-	-	(9,986)	-	(9,986)
Change in obligation for purchase of common shares, as adjusted ⁽¹⁾	7	6,531	-	-	6,531	-	6,531
Balance at September 30, 2022		386,055	1,997	(271,481)	116,571	43,890	160,461

⁽¹⁾ Certain comparative figures have been adjusted, as described in note 20.24.1 of the audited consolidated financial statements for the year ended December 31, 2022.

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

MEDICAL FACILITIES CORPORATION

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

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2023 \$	2022 \$	2023 \$	2022 \$
Revenue and other income					
Facility service revenue		104,579	102,167	323,317	305,117
Government stimulus income	4	-	-	-	2,173
		104,579	102,167	323,317	307,290
Operating expenses					
Salaries and benefits		32,896	32,370	99,098	93,616
Drugs and supplies		35,433	35,053	109,441	102,885
General and administrative expenses		18,508	19,134	56,666	53,819
Depreciation of property and equipment		2,352	2,328	7,227	6,988
Depreciation of right-of-use assets		2,711	2,696	8,114	7,939
Amortization of other intangibles		137	161	1,172	477
		92,037	91,742	281,718	265,724
Income from operations		12,542	10,425	41,599	41,566
Finance costs					
Change in value of exchangeable interest liability		3,298	6,914	4,010	2,812
Interest expense on exchangeable interest liability		1,645	1,515	5,226	5,418
Interest expense, net of interest income	11	1,450	1,310	4,651	4,063
Impairment loss on loans receivable		786	9,394	786	13,384
Loss (gain) on foreign currency		28	(4)	42	9
		7,207	19,129	14,715	25,686
Non-operating losses (gains)					
Gain on sale of subsidiaries and equity investments	1	(2,487)	-	(2,487)	-
Share of equity loss in associates		320	5	320	271
		(2,167)	5	(2,167)	271
Income (loss) before income taxes		7,502	(8,709)	29,051	15,609
Income tax expense (recovery)	10	2,709	(3,213)	5,363	(23)
Net income (loss) and comprehensive income (loss) for the period		4,793	(5,496)	23,688	15,632
Attributable to:					
Owners of the Corporation		(114)	(10,453)	7,621	(2,131)
Non-controlling interest		4,907	4,957	16,067	17,763
		4,793	(5,496)	23,688	15,632
Earnings (loss) per share attributable to owners of the Corporation					
Basic	5	\$ (0.01)	\$ (0.35)	\$ 0.30	\$ (0.07)
Fully diluted	5	\$ (0.01)	\$ (0.35)	\$ 0.30	\$ (0.07)

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

MEDICAL FACILITIES CORPORATION

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

	Note	Nine Months Ended September 30,	
		2023	2022
		\$	\$
Cash flows from operating activities			
Net income for the period		23,688	15,632
Adjustments for:			
Depreciation of property and equipment		7,227	6,988
Depreciation of right-of-use assets		8,114	7,939
Amortization of other intangibles		1,172	477
Change in value of exchangeable interest liability		4,010	2,812
Interest expense, net of interest income		9,877	9,481
Impairment loss on loans receivable		786	13,384
Loss on foreign currency		42	9
Gain on sale of subsidiaries and equity investments	1	(2,487)	-
Share of equity loss in associates		320	271
Income tax expense (recovery)	10	5,363	(23)
Stock options expense (income)	14.1	(490)	138
Other non-cash gain		(22)	(5)
		57,600	57,103
Net changes in non-cash operating working capital	8	7,303	(11,688)
		64,903	45,415
Interest paid, net of received		(7,928)	(7,450)
Income and withholding taxes received (paid)		(4,091)	1,450
Net cash provided by operating activities		52,884	39,415
Cash flows from investing activities			
Purchase of property and equipment		(14,728)	(3,136)
Redemption of non-controlling interest in MFC Nueterra ASCs		(8)	(37)
Proceeds from sale of MFC Nueterra ASCs, net of cash disposed	1	2,394	-
Proceeds from sale of non-controlling interest in Black Hills Surgical Physicians, LLC		-	336
Investment in St. Luke's Surgery Center of Chesterfield, LLC		-	(255)
Net cash used in investing activities		(12,342)	(3,092)
Cash flows from financing activities			
Net repayments of revolving credit facilities and issuance of notes payable		(3,322)	(3,715)
Repayments of notes payable by the Facilities		(5,265)	(5,117)
Payment of lease liabilities		(9,478)	(9,132)
Loan receivable from an associate		-	150
Distributions to non-controlling interest		(20,325)	(19,434)
Dividends paid		(4,587)	(5,783)
Purchase of common shares under normal course issuer bids	6	(5,470)	(9,986)
Net cash used in financing activities		(48,447)	(53,017)
Decrease in cash and cash equivalents		(7,905)	(16,694)
Effect of exchange rate fluctuations on cash balances held		(42)	(9)
Cash and cash equivalents, beginning of the period		34,926	61,044
Cash and cash equivalents, end of the period		26,979	44,341

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

MEDICAL FACILITIES CORPORATION

Notes to the Interim Condensed Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)
For the three and nine months ended September 30, 2023
(Unaudited)

1. REPORTING ENTITY

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

The Corporation’s operations are based in the United States. Through its wholly-owned subsidiaries, the Corporation owns controlling interests in four specialty hospitals and one ambulatory surgery center (the “ASC”) (collectively the “Facilities”).

On May 5, 2023, clinical operations were permanently closed at Eastwind Surgical, LLC.

On June 30, 2023, clinical operations were permanently closed at Riverview Ambulatory Surgical Center, LLC.

Both of the above entities are indirectly owned by the Corporation through the MFC Nueterra Partnership. Post closure of their clinical operations, these ASCs are in the process of being wound-up, as part of which their assets have been liquidated, with net proceeds remaining after payment of liabilities, if any, to be distributed among their respective owners. Certain gains and losses were recorded in connection with these developments in general and administrative expenses, the net impact of which is insignificant.

On July 1, 2023, the Corporation sold all of its 30.3% controlling ownership interest in City Place Surgery Center, together with its 28.0% non-controlling ownership interest in St. Luke’s Surgery Center of Chesterfield, LLC (“St. Luke’s ASC”), for combined proceeds of \$1,365. The buyer also assumed St. Luke’s ASC’s debt of \$4,978 and released the Corporation from its pro-rata guarantee. In connection with this transaction, the Corporation recorded a pre-tax gain of \$1,070.

On July 31, 2023, the Corporation sold all of its 58.7% controlling ownership interest in Miracle Hills Surgery Center, LLC for proceeds of \$965. In connection with this transaction, the Corporation recorded a pre-tax gain of \$568.

On August 25, 2023, the Corporation sold all of its 49.6% controlling ownership interest in Brookside Surgery Center, LLC for proceeds of \$1,125. In connection with this transaction, the Corporation recorded a pre-tax gain of \$849.

As of the dates of the above sale transactions, the Corporation no longer consolidates the financial results of these ASCs. Following these sales, the Corporation completed the divestiture of all the ASCs indirectly owned through the MFC Nueterra Partnership (the “MFC Nueterra ASCs”) and also, effective September 30, 2023, terminated the management services agreement with NueHealth, LLC, which provided management services to the MFC Nueterra ASCs.

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Notes to the Interim Condensed Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)
For the three and nine months ended September 30, 2023
(Unaudited)

1. REPORTING ENTITY (Continued)

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

Subsidiary	Location	Ownership Interest September 30,	
		2023	2022
Arkansas Surgical Hospital, LLC ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	64.0%	64.0%
Black Hills Surgical Hospital, LLP ("BHSH")	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP ("SFSH")	Sioux Falls, South Dakota	51.0%	51.0%
The Surgery Center of Newport Coast ("SCNC")	Newport Beach, California	51.0%	51.0%

2. STATEMENT OF COMPLIANCE

These unaudited interim condensed consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Accounting Standard IAS 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board using the accounting policies as described in the audited consolidated financial statements for the year ended December 31, 2022 ("annual financial statements").

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

3. BASIS OF PREPARATION

These consolidated financial statements do not contain all of the disclosures that are required in annual financial statements prepared under International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Corporation's annual financial statements, which include information necessary or useful to understand the Corporation's business and financial statement presentation.

Income from operations for the interim period is not necessarily indicative of the results for the full year. Facility service revenue and certain directly related expenses are subject to seasonal fluctuations due to the timing of case scheduling, which can be impacted by the vacation schedules of surgeons, as well as the extent to which patients have remaining deductibles on their insurance coverage, based on the time of year. Occupancy related expenses, certain operating expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

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

MEDICAL FACILITIES CORPORATION

Notes to the Interim Condensed Consolidated Financial Statements

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

For the three and nine months ended September 30, 2023

(Unaudited)

4. GOVERNMENT STIMULUS INCOME

The *Coronavirus Aid, Relief, and Economic Security (CARES) Act* (the “CARES Act”) was signed into law on March 27, 2020 in response to COVID-19. The CARES Act included provisions for financial assistance to hospitals, surgery centers and health care providers via, among other provisions, the Public Health and Social Services Emergency Fund (“PHSSEF”), the Paycheck Protection Program (“PPP”), the Employee Retention Credit (“ERC”), and expansion of an existing Centers for Medicare and Medicaid Services accelerated payment program.

The PHSSEF was administered by the U.S. Department of Health and Human Services (“HHS”) to provide eligible healthcare providers with relief funds to cover non-reimbursable expenses, including lost revenue, attributable to COVID-19. Funds not utilized for eligible expenses and not applied to lost revenues must be returned. The recognition of amounts received was conditioned upon receipt of the funds, the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, and certification that the payment would be used to prevent, prepare for and respond to COVID-19. For the nine months ended September 30, 2023, the Facilities did not receive any funds from the HHS (September 30, 2022: \$932).

The PPP expanded the guaranteed lending program under Section 7(a) of the *Small Business Act* administered by the U.S. Small Business Administration (“SBA”). To the extent the recipient was eligible to receive the loan, the loan amounts received are eligible for forgiveness to the extent they are used for certain qualifying expenses and to maintain payroll levels and related expenses during the 8 to 24-week period following loan origination.

Of the loans received under the PPP of \$12,226 during the year ended December 31, 2020, loans of \$1,655 were forgiven in full by the SBA, while loans of \$6,434 had been forgiven, pending additional review. The remaining balance of \$4,137, relating to one Facility, was denied forgiveness by the SBA on December 10, 2022. On January 9, 2023, the Facility filed an appeal against this decision, after which the SBA initiated a re-review of the loan forgiveness application. On April 23, 2023, the SBA issued another denial decision, against which the Facility filed an appeal.

For the loans received under the PPP of \$1,479 during the year ended December 31, 2021, all forgiveness applications were denied by the SBA in September 2022. The affected Facilities each filed an appeal against these denials. In November 2022, the SBA issued full forgiveness for loans of \$612. In December 2022, the SBA withdrew its earlier decisions to deny forgiveness for loans of \$468 and initiated a re-review of the loan forgiveness applications. On April 23, 2023, the SBA issued another denial decision for the remaining loan of \$399, relating to one Facility, against which the Facility filed an appeal. On July 18, 2023, this appeal was remanded by the Office of Hearings and Appeals back to the SBA for further review and analysis concerning corporate affiliations, after which a new final loan review decision will be issued. The Facilities whose loans are not forgiven also had loans of \$897 from an earlier round of the program which had been forgiven in full by the SBA.

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Notes to the Interim Condensed Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)
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(Unaudited)

4. GOVERNMENT STIMULUS INCOME (Continued)

The Facilities recognized income for the loans received under the PPP during prior periods based on reasonable assurance that they had met the requirements for forgiveness. However, due to the denial and additional review of certain loan forgiveness applications by the SBA in 2022, as of December 31, 2022, the Corporation no longer had reasonable assurance of meeting the forgiveness requirements for loans of \$12,335, which consisted of all PPP loan balances for Facilities whose forgiveness applications had been denied or were under review. As a result, these were reversed from government stimulus income during the year ended December 31, 2022, and recorded as a liability under government stimulus funds repayable at December 31, 2022. As of September 30, 2023, subsequent to the divestiture of the MFC Nueterra ASCs, the government stimulus funds repayable liability was \$11,957.

It remains to be seen if the SBA will reach further denial decisions for the PPP loans under review or appeal. There remains uncertainty over the final outcome as forgiveness applications for these PPP loans must still be formally decided upon by the SBA. Management plans to vigorously pursue all reasonably available channels for reversing any denials. Any loans subsequently forgiven will result in a recognition of income and a reversal of the corresponding liability.

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

The ERC was a refundable tax credit against certain employment taxes that could be claimed by eligible employers, whose business had been financially impacted by COVID-19, in their quarterly employment tax returns. For the nine months ended September 30, 2023, the Facilities had no claims approved under the ERC (September 30, 2022: \$608).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
HHS	-	-	-	1,434
ERC	-	-	-	608
Other	-	-	-	131
Government stimulus income	-	-	-	2,173

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4. GOVERNMENT STIMULUS INCOME (Continued)

Most COVID-19 related government stimulus funds introduced under past or present legislation had been fully exhausted or terminated by December 31, 2022. In relation to the financial assistance already received or that might be received under future stimulus legislation, if any, there can be no assurance that the Facilities will be able to comply with the applicable terms and conditions to retain such assistance.

5. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended September 30,	
	2023	2022
Net loss for the period attributable to owners of the Corporation	\$ (114)	(10,453)
Divided by weighted average number of common shares outstanding for the period	25,066,567	29,554,010
Basic loss per share	\$ (0.01)	(0.35)

	Nine Months Ended September 30,	
	2023	2022
Net income (loss) for the period attributable to owners of the Corporation	\$ 7,621	(2,131)
Divided by weighted average number of common shares outstanding for the period	25,368,942	30,088,381
Basic earnings (loss) per share	\$ 0.30	(0.07)

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

	Three Months Ended September 30,	
	2023	2022
Net loss for the period attributable to owners of the Corporation	\$ (114)	(10,453)
Change in value of exchangeable interest liability (tax effected)	-	-
Interest expense on exchangeable interest liability	-	-
Modified net loss for the period attributable to owners of the Corporation	\$ (114)	(10,453)
Weighted average number of common shares:		
Outstanding for the period	25,066,567	29,554,010
Deemed to be issued on the exchange of the outstanding exchangeable interest liability	-	-
Deemed to be issued as stock options	-	-
Weighted average number of common shares ⁽¹⁾	25,066,567	29,554,010
Fully diluted loss per share	\$ (0.01)	(0.35)

⁽¹⁾ For the three months ended September 30, 2022 and September 30, 2023, the impact of exchangeable interest liability and stock options was excluded from the dilutive weighted average number of common shares calculation because it was not applicable based on the share price prevailing at September 30, 2022 and September 30, 2023, respectively.

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Notes to the Interim Condensed Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)
For the three and nine months ended September 30, 2023
(Unaudited)

5. EARNINGS (LOSS) PER SHARE (Continued)

	Nine Months Ended September 30,	
	2023	2022
Net income (loss) for the period attributable to owners of the Corporation	\$ 7,621	(2,131)
Change in value of exchangeable interest liability (tax effected)	-	-
Interest expense on exchangeable interest liability	-	-
Modified net income (loss) for the period attributable to owners of the Corporation	\$ 7,621	(2,131)
Weighted average number of common shares:		
Outstanding for the period	25,368,942	30,088,381
Deemed to be issued on the exchange of the outstanding exchangeable interest liability	-	-
Deemed to be issued as stock options	-	-
Weighted average number of common shares ⁽¹⁾	25,368,942	30,088,381
Fully diluted earnings (loss) per share	\$ 0.30	(0.07)

⁽¹⁾ For the nine months ended September 30, 2022 and September 30, 2023, the impact of exchangeable interest liability and stock options was excluded from the dilutive weighted average number of common shares calculation because it was not applicable based on the share price prevailing at September 30, 2022 and September 30, 2023, respectively.

6. NORMAL COURSE ISSUER BID

The Corporation has a normal course issuer bid for up to 2,615,186 of its common shares in effect from December 1, 2022 to November 30, 2023. During the nine months ended September 30, 2023, the Corporation purchased 891,700 of its common shares for a total consideration of \$5,470 from the open market under this normal course issuer bid. During the nine months ended September 30, 2022, the Corporation purchased 1,393,900 of its common shares for a total consideration of \$9,986 from the open market under a previous normal course issuer bid.

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

7. OBLIGATION FOR PURCHASE OF COMMON SHARES

The Corporation entered into an automatic share purchase plan with a broker that allows the purchase of common shares for cancellation under the normal course issuer bid, in accordance with certain prearranged trading parameters, at any time during predetermined trading blackout periods. An obligation for purchase of common shares of \$2,943 was recognized under the automatic share purchase plan as of September 30, 2023 (December 31, 2022: \$4,420). Subsequent to the period end, the Corporation purchased 20,700 of its common shares for a total consideration of \$134 under the automatic share purchase plan, through November 3, 2023.

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

8. NET CHANGES IN NON-CASH WORKING CAPITAL

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

	Nine Months Ended September 30,	
	2023	2022
	\$	\$
Accounts receivable	9,850	4,252
Supply inventory	(552)	243
Prepaid expenses and other	4,412	(677)
Accounts payable	(3,396)	677
Accrued liabilities	(3,011)	(1,249)
Government stimulus funds repayable	-	(14,934)
Net changes in non-cash working capital	7,303	(11,688)

9. FINANCIAL INSTRUMENTS

9.1 Fair values and classification of financial instruments

The fair value of exchangeable interest liability is determined based on the closing trading price of common shares at each reporting date. The fair values of long-term debt approximate their carrying values as the interest rates are similar to prevailing market rates. The fair values of all other financial instruments of the Corporation approximate their carrying values due to the short-term nature of these instruments.

The following table presents the carrying values and classification of the Corporation's financial instruments as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	\$	\$
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	26,979	34,926
Amortized cost		
Accounts receivable	52,945	64,040
Financial liabilities		
Fair value through profit or loss		
Exchangeable interest liability	41,364	37,354
Amortized cost		
Dividends payable	1,484	1,539
Accounts payable	22,239	26,402
Accrued liabilities	18,617	22,211
Income tax payable	15	-
Obligation for purchase of common shares	2,943	4,420
Corporate credit facility	24,000	36,000
Long-term debt	52,603	49,593

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9. FINANCIAL INSTRUMENTS (Continued)

The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at amortized cost or fair value through profit or loss as of September 30, 2023 and December 31, 2022. They do not include fair value information for financial instruments which are short-term in nature.

	September 30, 2023			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Financial assets				
Cash and cash equivalents	26,979	-	-	26,979
Financial liabilities				
Exchangeable interest liability	-	41,364	-	41,364
Corporate credit facility	-	24,000	-	24,000
Long-term debt	-	52,603	-	52,603
Total	26,979	117,967	-	144,946

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

9.2 Measurement of fair values

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

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

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10. INCOME TAXES

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

The 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
Provision for income taxes				
Current	316	(322)	2,309	866
Deferred	2,393	(2,891)	3,054	(889)
Total income tax expense (recovery)	2,709	(3,213)	5,363	(23)

11. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income, included in the interim condensed consolidated statements of income (loss) and comprehensive income (loss) consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
Interest expense at the Facilities' level	512	486	1,493	1,443
Interest expense at the corporate level	410	130	1,486	344
Interest expense on lease liabilities	646	663	1,949	2,031
Corporate credit facility stand-by fees	55	147	256	439
Interest income at the Facilities' level	(65)	(4)	(158)	(15)
Interest income at the corporate level	(108)	(112)	(375)	(179)
Interest expense, net of interest income	1,450	1,310	4,651	4,063

12. RELATED PARTY TRANSACTIONS

12.1 Related party transactions

A member of the Corporation's Board of Directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the nine months ended September 30, 2023 of \$3,376 (September 30, 2022: \$3,376)

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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12. RELATED PARTY TRANSACTIONS (Continued)

12.2 Other transactions

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

13. COMMITMENTS AND CONTINGENCIES

13.1 Commitments

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

13.2 Contingencies

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

14. SHARE-BASED COMPENSATION

14.1 Stock options

The following table summarizes the outstanding number of stock options as of September 30, 2023:

Optionee	Number of Options Held	Number of Options Vested	Exercise Price	Grant Date
Chief Financial Officer	300,000	-	C\$12.79	June 24, 2019
Former Chief Executive Officer	223,562	223,562	C\$17.24	May 1, 2016
Former Chief Financial Officer	221,344	221,344	C\$17.98	November 21, 2016
Total number of outstanding options	744,906	444,906		

Outstanding options (the "Options") vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of September 30, 2023, 444,906 of the Options relating to the Former Chief Executive Officer and the Former Chief Financial Officer are vested.

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14. SHARE-BASED COMPENSATION (Continued)

During the nine months ended September 30, 2023, the Corporation recognized income of \$490 relating to the Options (September 30, 2022: expense of \$138) in salaries and benefits expense due to recoveries from forfeited shares.

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

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

14.2 Deferred share units

Compensation for directors includes a deferred share unit (“DSU”) component, for which grants based on the value of the Corporation’s common shares are made quarterly. The DSUs accrue dividends, vest immediately and can be redeemed only when a participant ceases to serve as a director of the Corporation. The participant’s entitlement in respect of the DSUs then held will be settled in cash based on a formula tied to the value of the Corporation’s common shares at the relevant time. For the nine months ended September 30, 2023, director compensation included DSU grants of \$464 (September 30, 2022: \$617), while the change in market value of outstanding DSUs for the same period was an expense of \$346 (September 30, 2022: \$142).

The following table summarizes changes in the number of DSUs for the nine months ended September 30, 2023:

	2023
Opening balance of DSUs at January 1, 2023	243,770
DSUs granted on director fees	74,139
DSUs granted on dividend reinvestment	8,119
Total number of DSUs at September 30, 2023	326,028

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14. SHARE-BASED COMPENSATION (Continued)

14.3 Performance share unit plan

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

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

14.3.1 Performance share units

PSU grants were made on March 29, 2018 for 59,003 PSUs, and on March 29, 2019 for 51,077 PSUs. The value of the expense and liability associated with the PSUs is determined based on the Corporation's share price at the end of each reporting period. For the nine months ended September 30, 2023, operating expenses did not include any PSU expense (September 30, 2022: \$79). On March 29, 2022, all outstanding PSUs vested, after which they were paid out in the next quarter.

14.3.2 Share units

To date, SU grants were made on March 31, 2020 for 346,638 Executive DSUs, on March 31, 2021 for 175,898 Executive DSUs, on March 31, 2022 for 150,348 Executive DSUs, and on March 31, 2023 for 78,978 Executive DSUs. The value of the expense and liability associated with the SUs is determined based on the Corporation's share price at the end of each reporting period. For the nine months ended September 30, 2023, operating expenses included an SU income of \$60 (September 30, 2022: expense of \$1,657). As of September 30, 2023, the liability for SUs was \$562 (December 31, 2022: \$1,204).

The following table summarizes changes in the number of SUs for the nine months ended September 30, 2023:

	2023
Opening balance of SUs at January 1, 2023	261,134
SUs granted	78,978
SUs granted on dividend reinvestment	7,992
SUs vested and settled	(96,760)
SUs forfeited	(51,534)
Total number of SUs at September 30, 2023	199,810

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15. SIGNIFICANT ACCOUNTING POLICIES

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

15.1 New and revised IFRS not yet adopted

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