

Interim Condensed Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

For the three months ended March 31, 2023

(Unaudited)

(In U.S. dollars)

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MEDICAL FACILITIES CORPORATION

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

	Note	March 31, 2023 \$ (Unaudited)	December 31, 2022 \$
ASSETS			
Current assets			
Cash and cash equivalents		35,305	34,926
Accounts receivable		58,014	64,040
Supply inventory		9,685	9,227
Prepaid expenses and other		8,644	10,549
Income tax receivable		307	587
Total current assets		111,955	119,329
Non-current assets			
Deferred income tax assets		32	20
Property and equipment		74,243	74,155
Right-of-use assets		47,888	50,564
Goodwill		120,623	120,623
Other intangibles		12,583	13,100
Total non-current assets		255,369	258,462
TOTAL ASSETS		367,324	377,791
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		1,518	1,539
Accounts payable		25,828	26,402
Accrued liabilities		17,904	22,211
Income tax payable		675	-
Obligation for purchase of common shares	7	2,611	4,420
Current portion of long-term debt		9,114	9,729
Current portion of lease liabilities		10,037	10,183
Government stimulus funds repayable	4	12,335	12,335
Total current liabilities		80,022	86,819
Non-current liabilities			
Long-term debt		38,684	39,864
Lease liabilities		44,927	47,178
Deferred income tax liability		16,593	15,884
Corporate credit facility		36,000	36,000
Exchangeable interest liability		36,051	37,354
Total non-current liabilities		172,255	176,280
Total liabilities		252,277	263,099
Equity			
Share capital	6, 7	352,511	353,237
Contributed surplus		1,206	1,192
Deficit		(272,402)	(275,295)
Equity attributable to owners of the Corporation		81,315	79,134
Non-controlling interest		33,732	35,558
Total equity		115,047	114,692
TOTAL LIABILITIES AND EQUITY		367,324	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	Retained Earnings/ (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		-	-	4,411	4,411	5,255	9,666
Share-based compensation	14.1	-	14	-	14	-	14
Dividends to owners of the Corporation		-	-	(1,518)	(1,518)	-	(1,518)
Distributions to non-controlling interest		-	-	-	-	(7,073)	(7,073)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(8)	(8)
Purchase of common shares under a normal course issuer bid	6	(2,535)	-	-	(2,535)	-	(2,535)
Change in obligation for purchase of common shares	7	1,809	-	-	1,809	-	1,809
Balance at March 31, 2023		352,511	1,206	(272,402)	81,315	33,732	115,047
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		-	-	(7,861)	(7,861)	6,746	(1,115)
Share-based compensation	14.1	-	54	-	54	-	54
Dividends to owners of the Corporation		-	-	(1,957)	(1,957)	-	(1,957)
Distributions to non-controlling interest		-	-	-	-	(7,543)	(7,543)
Purchase of common shares under a normal course issuer bid	6	(2,953)	-	-	(2,953)	-	(2,953)
Change in obligation for purchase of common shares ⁽²⁾	7	2,175	-	-	2,175	-	2,175
Balance at March 31, 2022, as adjusted⁽²⁾		388,732	1,913	(273,635)	117,010	44,801	161,811

⁽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.

⁽²⁾ Certain comparative figures have been adjusted, as described in note 15.2 of these unaudited interim condensed consolidated financial statements.

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 March 31,	
		2023 \$	2022 \$
Revenue and other income			
Facility service revenue		109,250	100,788
Government stimulus income	4	-	1,810
		109,250	102,598
Operating expenses			
Salaries and benefits		33,522	29,899
Drugs and supplies		37,002	33,756
General and administrative expenses		19,581	19,126
Depreciation of property and equipment		2,447	2,345
Depreciation of right-of-use assets		2,676	2,635
Amortization of other intangibles		517	157
		95,745	87,918
Income from operations		13,505	14,680
Finance costs			
Change in value of exchangeable interest liability		(1,303)	10,303
Interest expense on exchangeable interest liability		1,850	2,191
Interest expense, net of interest income	11	1,636	1,401
Impairment loss on loan receivable		-	3,990
Loss on foreign currency		4	10
		2,187	17,895
Share of equity income in associates		-	(6)
Income (loss) before income taxes		11,318	(3,209)
Income tax expense (recovery)	10	1,652	(2,094)
Net income (loss) and comprehensive income (loss) for the period		9,666	(1,115)
Attributable to:			
Owners of the Corporation		4,411	(7,861)
Non-controlling interest		5,255	6,746
		9,666	(1,115)
Earnings (loss) per share attributable to owners of the Corporation			
Basic	5	\$ 0.17	\$ (0.26)
Fully diluted	5	\$ 0.17	\$ (0.26)

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	Three Months Ended March 31,	
		2023	2022
		\$	\$
Cash flows from operating activities			
Net income (loss) for the period		9,666	(1,115)
Adjustments for:			
Depreciation of property and equipment		2,447	2,345
Depreciation of right-of-use assets		2,676	2,635
Amortization of other intangibles		517	157
Impairment loss on loan receivable		-	3,990
Share of equity income in associates		-	(6)
Change in value of exchangeable interest liability		(1,303)	10,303
Loss on foreign currency		4	10
Income tax expense (recovery)	10	1,652	(2,094)
Share-based compensation	14.1	14	54
Interest expense, net of interest income		3,486	3,592
Other non-cash gain		-	(5)
		19,159	19,866
Net changes in non-cash operating working capital	8	2,592	(5,503)
		21,751	14,363
Interest paid, net of received		(2,832)	(2,897)
Income and withholding taxes paid		-	(28)
Net cash provided by operating activities		18,919	11,438
Cash flows from investing activities			
Purchase of property and equipment		(2,535)	(731)
Redemption of non-controlling interest in MFC Nueterra ASCs		(8)	-
Proceeds from sale of non-controlling interest in Black Hills Surgical Physicians, LLC		-	336
Net cash used in investing activities		(2,543)	(395)
Cash flows from financing activities			
Net repayments of revolving credit facilities and issuance of notes payable		(96)	(4,713)
Repayments of notes payable by the Facilities		(1,699)	(1,718)
Payment of lease liabilities		(3,051)	(2,934)
Distributions to non-controlling interest		(7,073)	(7,543)
Dividends paid		(1,539)	(1,961)
Purchase of common shares under normal course issuer bids	6	(2,535)	(2,953)
Net cash used in financing activities		(15,993)	(21,822)
Increase (decrease) in cash and cash equivalents			
Effect of exchange rate fluctuations on cash balances held		(4)	(10)
Cash and cash equivalents, beginning of the period		34,926	61,044
Cash and cash equivalents, end of the period		35,305	50,255

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 months ended March 31, 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 six ambulatory surgery centers (the “ASCs”) (collectively the “Facilities”).

On May 5, 2023, clinical operations were permanently closed at Eastwind Surgical, LLC (“Eastwind ASC”), an ASC located in Westerville, Ohio and indirectly owned by the Corporation through the MFC Nueterra Partnership. Post closure of its clinical operations, Eastwind ASC is expected to be wound-up. As part of this process, its assets will be liquidated, with net proceeds remaining after payment of liabilities, if any, to be distributed among the owners. No gains or losses were recorded in connection with this subsequent development in these unaudited interim condensed consolidated financial statements.

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

Subsidiary	Location	Ownership Interest	
		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%
MFC Nueterra ASCs ⁽¹⁾	Various	47.2%	46.1%

⁽¹⁾ The Corporation has an average ownership interest of 47.2% based on values as at the reporting date. The five ASCs are situated in Michigan, Missouri, Nebraska, Ohio, and Pennsylvania. On May 5, 2023, clinical operations were permanently closed at Eastwind ASC, located in Westerville, Ohio.

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 (“IASB”) 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 May 10, 2023.

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)
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(Unaudited)

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.

4. COVID-19

The Corporation’s and Facilities’ operations were impacted by COVID-19, which was designated as a global pandemic by the World Health Organization (“WHO”) on March 11, 2020. On April 10, 2023, the U.S. president signed a bill ending the COVID-19 national emergency, and on May 5, 2023, the WHO declared an end to the COVID-19 global health emergency. Management believes the extent of the COVID-19 pandemic’s adverse impact on the Corporation’s operating results and financial condition has been and could continue to be driven by many factors, most of which are beyond management’s control and ability to forecast. Because of these uncertainties, management cannot estimate the length or severity of the potential impact of the pandemic on the business.

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

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 months ended March 31, 2023

(Unaudited)

4. COVID-19 (Continued)

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

MEDICAL FACILITIES CORPORATION

Notes to the Interim Condensed Consolidated Financial Statements
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(Unaudited)

4. COVID-19 (Continued)

The Facilities recognized income for the loans received under the PPP during prior periods based on reasonable assurance that they had met the requirements for forgiveness. However, due to the denial and additional review of certain loan forgiveness applications by the SBA in 2022, as at 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 for the year ended December 31, 2022, and recorded as a liability under government stimulus funds repayable. It remains to be seen if the SBA will reach further denial decisions for the PPP loans under review or appeal. There remains uncertainty over the final outcome as forgiveness applications for these PPP loans must still be formally decided upon by the SBA. Management plans to vigorously pursue all reasonably available channels for reversing any denials. Any loans subsequently forgiven will result in a recognition of income and a reversal of the corresponding liability.

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

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 three months ended March 31, 2023, the Facilities had no claims approved under the ERC (March 31, 2022: \$245).

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

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

	Three Months Ended March 31,	
	2023	2022
	\$	\$
HHS	-	1,434
ERC	-	245
Other	-	131
Government stimulus income	-	1,810

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.

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 months ended March 31, 2023
(Unaudited)

5. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended March 31,	
	2023	2022
Net income (loss) for the period attributable to owners of the Corporation	\$ 4,411	(7,861)
Divided by weighted average number of common shares outstanding for the period	25,702,096	30,525,026
Basic earnings (loss) per share	\$ 0.17	(0.26)

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

	Three Months Ended March 31,	
	2023	2022
Net income (loss) for the period attributable to owners of the Corporation	\$ 4,411	(7,861)
Change in value of exchangeable interest liability (tax effected)	(990)	-
Interest expense on exchangeable interest liability	1,850	-
Modified net income (loss) for the period attributable to owners of the Corporation	\$ 5,271	(7,861)
Weighted average number of common shares:		
Outstanding for the period	25,702,096	30,525,026
Deemed to be issued on the exchange of the outstanding exchangeable interest liability	6,213,680	-
Deemed to be issued as share-based compensation	-	-
Weighted average number of common shares ⁽¹⁾⁽²⁾	31,915,776	30,525,026
Fully diluted earnings (loss) per share	\$ 0.17	(0.26)

⁽¹⁾ For the three months ended March 31, 2023, the impact of share-based compensation was excluded from the dilutive weighted average number of common shares calculation because it was not applicable based on the share price prevailing at March 31, 2023.

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

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 three months ended March 31, 2023, the Corporation purchased 417,900 of its common shares for a total consideration of \$2,535 from the open market under this normal course issuer bid. During the three months ended March 31, 2022, the Corporation purchased 391,100 of its common shares for a total consideration of \$2,953 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.

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)

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(Unaudited)

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 \$2,611 was recognized under the automatic share purchase plan as at March 31, 2023 (December 31, 2022: \$4,420). Subsequent to the period end, the Corporation purchased 111,100 of its common shares for a total consideration of \$668 under the automatic share purchase plan, through May 5, 2023.

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:

	Three Months Ended March 31,	
	2023	2022
	\$	\$
Accounts receivable	6,026	2,742
Supply inventory	(458)	210
Prepaid expenses and other	1,905	299
Accounts payable	(574)	(2,841)
Accrued liabilities	(4,307)	(1,810)
Government stimulus funds repayable	-	(4,103)
Net changes in non-cash working capital	2,592	(5,503)

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 book values as the interest rates are similar to prevailing market rates. The fair values of all other financial instruments of the Corporation approximate their book values due to the short-term nature of these instruments.

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)
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(Unaudited)

9. FINANCIAL INSTRUMENTS (Continued)

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

	March 31, 2023	December 31, 2022
	\$	\$
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	35,305	34,926
Amortized cost		
Accounts receivable	58,014	64,040
Financial liabilities		
Fair value through profit or loss		
Exchangeable interest liability	36,051	37,354
Amortized cost		
Dividends payable	1,518	1,539
Accounts payable	25,828	26,402
Accrued liabilities	17,904	22,211
Obligation for purchase of common shares	2,611	4,420
Corporate credit facility	36,000	36,000
Long-term debt	47,798	49,593

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 March 31, 2023 and December 31, 2022. They do not include fair value information for financial instruments which are short-term in nature.

	March 31, 2023			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	35,305	-	-	35,305
Financial liabilities				
Exchangeable interest liability	-	36,051	-	36,051
Corporate credit facility	-	36,000	-	36,000
Long-term debt	-	47,798	-	47,798
Total	35,305	119,849	-	155,154

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

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 months ended March 31, 2023
(Unaudited)

9. FINANCIAL INSTRUMENTS (Continued)

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.

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:

Provision for income taxes	Three Months Ended March 31,	
	2023	2022
	\$	\$
Current	955	462
Deferred	697	(2,556)
Total income tax expense (recovery)	1,652	(2,094)

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 months ended March 31, 2023
(Unaudited)

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 March 31,	
	2023	2022
	\$	\$
Interest expense at Facilities' level	494	479
Interest expense at corporate level	544	103
Interest expense on lease liabilities	654	695
Corporate credit facility stand-by fees	100	148
Interest income at Facilities' level	(31)	(5)
Interest income at corporate level	(125)	(19)
Interest expense, net of interest income	1,636	1,401

12. RELATED PARTY TRANSACTIONS AND BALANCES

12.1 Equity accounted investments

The Corporation has a 28.0% non-controlling ownership interest in St. Luke's Surgery Center of Chesterfield, LLC ("St. Luke's ASC"), which is accounted using the equity method. The investment balance was written down to nil due to the Corporation's share of losses recognized in prior periods.

12.2 Related party transactions

A member of the Corporation's Board of Directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the three months ended March 31, 2023 of \$1,125 (March 31, 2022: \$1,125).

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. MFC Nueterra provides management services to St. Luke's ASC, for which it charged \$85 for the three months ended March 31, 2023 (March 31, 2022: \$81).

12.3 Other transactions

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

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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 March 31, 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
Chief Development Officer ⁽¹⁾	350,000	350,000	C\$21.15	September 19, 2016
Former Chief Executive Officer	223,562	223,562	C\$17.24	May 1, 2016
Former Chief Financial Officer	221,344	221,344	C\$17.98	November 21, 2016
Total number of outstanding options	1,094,906	794,906		

⁽¹⁾ On April 21, 2023, the Chief Development Officer was terminated without cause and has 30 days from this date until his 350,000 vested options expire.

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 March 31, 2023, 794,906 of the Options relating to the Chief Development Officer, the Former Chief Executive Officer and the Former Chief Financial Officer are vested.

During the three months ended March 31, 2023, the Corporation recognized \$14 (March 31, 2022: \$54) relating to the Options in salaries and benefits expense.

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14. SHARE-BASED COMPENSATION (Continued)

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

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

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 three months ended March 31, 2023, director compensation included DSU grants of \$155 (March 31, 2022: \$221), while the change in market value of outstanding DSUs for the same period was an expense of \$17 (March 31, 2022: \$807).

The following table summarizes changes in the number of DSUs for the three months ended March 31, 2023:

	2023
Opening balance of DSUs at January 1, 2023	243,770
DSUs granted on director fees	26,160
DSUs granted on dividend reinvestment	2,437
Total number of DSUs at March 31, 2023	272,367

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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 on vesting while Executive DSUs are settled in cash upon a plan participant's separation from the Corporation. The units granted under the PSU Plan participate in the Corporation's quarterly dividend.

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 three months ended March 31, 2023, operating expenses did not include any PSU expenses (March 31, 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 three months ended March 31, 2023, operating expenses included an SU expense of \$20 (March 31, 2022: \$1,119). As at March 31, 2023, the liability for SUs was \$1,224 (December 31, 2022: \$1,204).

The following table summarizes changes in the number of SUs for the three months ended March 31, 2023:

	2023
Opening balance of SUs at January 1, 2023	261,134
SUs granted	78,978
SUs granted on dividend reinvestment	2,610
Total number of SUs at March 31, 2023	342,722

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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.

15.2 Prior year adjustment

An obligation for purchase of common shares of up to \$4,356 existed as at March 31, 2022, under a previous automatic share purchase plan, which had not been recorded in the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022. Certain prior year figures in the Interim Condensed Consolidated Statement of Changes in Equity have been adjusted to record this. This adjustment had no impact on the Interim Condensed Consolidated Statement of Income (Loss) and Comprehensive Income (Loss), and the Interim Condensed Consolidated Statement of Cash Flows.

The impact of this adjustment on the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022 is summarized below:

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to Owners of the Corporation			Total	Non-controlling Interest	Total Equity
	Share Capital	Contributed Surplus	Retained Earnings/ (Deficit)			
	\$	\$	\$	\$	\$	\$
2022						
Balance at March 31, 2022, as previously reported	393,088	1,913	(273,635)	121,366	44,801	166,167
Obligation for purchase of common shares	(4,356)	-	-	(4,356)	-	(4,356)
Balance at March 31, 2022, as adjusted	388,732	1,913	(273,635)	117,010	44,801	161,811

Interim Condensed Consolidated Balance Sheet

The adjustment resulted in an increase in obligation for purchase of common shares, and a decrease in share capital, of \$4,356.

The Corporation purchased 122,300 of its common shares for a total consideration of \$946 from April 1, 2022 through the end of the blackout period on May 12, 2022.