

Interim Condensed Consolidated Financial Statements of

**MEDICAL FACILITIES
CORPORATION**

For the three and six months ended June 30, 2022

(Unaudited)

(In U.S. dollars)

TABLE OF CONTENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Page
Interim Condensed Consolidated Balance Sheets.....	2
Interim Condensed Consolidated Statements of Changes in Equity	3
Interim Condensed Consolidated Statements of Income and Comprehensive Income.....	4
Interim Condensed Consolidated Statements of Cash Flows.....	5

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Page
1. Reporting entity	6
2. Statement of compliance	6
3. Basis of preparation.....	7
4. COVID-19.....	7
5. Earnings per share	10
6. Normal course issuer bid	12
7. Net changes in non-cash working capital	12
8. Financial instruments.....	12
9. Income taxes	14
10. Interest expense, net of interest income	15
11. Related party transactions and balances	15
12. Commitments and contingencies.....	16
13. Share-based compensation.....	17
14. Significant accounting policies.....	20

MEDICAL FACILITIES CORPORATION

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

	Note	June 30, 2022 \$ (Unaudited)	December 31, 2021 \$
ASSETS			
Current assets			
Cash and cash equivalents		47,696	61,044
Accounts receivable		60,856	61,444
Supply inventory		10,418	10,649
Prepaid expenses and other		8,774	9,749
Income tax receivable		2,721	6,008
Total current assets		130,465	148,894
Non-current assets			
Loan receivable	11.1	9,394	13,384
Deferred income tax assets		150	386
Property and equipment		74,150	77,203
Right-of-use assets		52,207	55,550
Goodwill		135,983	135,983
Other intangibles		14,133	14,449
Other assets	11.1	766	1,117
Total non-current assets		286,783	298,072
TOTAL ASSETS		417,248	446,966
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		1,865	1,961
Accounts payable		22,228	23,940
Accrued liabilities		22,128	24,939
Current portion of long-term debt		5,726	5,295
Current portion of lease liabilities		9,824	9,487
Payor advances and government stimulus funds repayable	4	6,315	15,843
Total current liabilities		68,086	81,465
Non-current liabilities			
Long-term debt		45,882	48,275
Lease liabilities		48,629	51,843
Deferred income tax liability		15,890	14,124
Corporate credit facility		21,000	26,000
Exchangeable interest liability		41,476	45,578
Total non-current liabilities		172,877	185,820
Total liabilities		240,963	267,285
Equity			
Share capital	6	389,190	396,041
Contributed surplus		1,959	1,859
Deficit		(259,317)	(263,817)
Equity attributable to owners of the Corporation		131,832	134,083
Non-controlling interest		44,453	45,598
Total equity		176,285	179,681
TOTAL LIABILITIES AND EQUITY		417,248	446,966

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)			
		\$	\$	\$	\$	\$	
2022							
Balance at January 1, 2022		396,041	1,859	(263,817)	134,083	45,598	179,681
Net income and comprehensive income for the period		-	-	8,322	8,322	12,806	21,128
Share-based compensation	13.1	-	100	-	100	-	100
Dividends to owners of the Corporation		-	-	(3,822)	(3,822)	-	(3,822)
Distributions to non-controlling interest		-	-	-	-	(13,961)	(13,961)
Investment by non-controlling interest in MFC Nueterra ASCs		-	-	-	-	10	10
Purchase of common shares under the terms of a normal course issuer bid	6	(6,851)	-	-	(6,851)	-	(6,851)
Balance at June 30, 2022		389,190	1,959	(259,317)	131,832	44,453	176,285
2021							
Balance at January 1, 2021		398,114	1,567	(272,149)	127,532	47,635	175,167
Net income and comprehensive income for the period		-	-	8,793	8,793	13,370	22,163
Share-based compensation	13.1	-	161	-	161	-	161
Dividends to owners of the Corporation		-	-	(3,490)	(3,490)	-	(3,490)
Distributions to non-controlling interest		-	-	-	-	(17,177)	(17,177)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(120)	(120)
Balance at June 30, 2021		398,114	1,728	(266,846)	132,996	43,708	176,704

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

MEDICAL FACILITIES CORPORATION

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

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2022 \$	2021 \$	2022 \$	2021 \$
Revenue and other income					
Facility service revenue		102,162	97,572	202,950	191,568
Government stimulus income	4	363	572	2,173	4,705
		102,525	98,144	205,123	196,273
Operating expenses					
Salaries and benefits		31,347	29,066	61,246	58,119
Drugs and supplies		34,076	31,561	67,832	61,654
General and administrative expenses		15,559	13,819	34,685	27,670
Depreciation of property and equipment		2,315	2,324	4,660	4,685
Depreciation of right-of-use assets		2,608	2,539	5,243	5,078
Amortization of other intangibles		159	1,893	316	3,766
		86,064	81,202	173,982	160,972
Income from operations		16,461	16,942	31,141	35,301
Finance costs (income)					
Change in value of exchangeable interest liability		(14,405)	(2,333)	(4,102)	(385)
Interest expense on exchangeable interest liability		1,712	2,145	3,903	4,844
Interest expense, net of interest income	10	1,352	1,615	2,753	3,157
Impairment loss on loan receivable	11.1	-	-	3,990	-
Loss (gain) on foreign currency		3	(4)	13	(2)
		(11,338)	1,423	6,557	7,614
Share of equity loss in associates	11.1	272	100	266	142
Income before income taxes		27,527	15,419	24,318	27,545
Income tax expense	9	5,284	3,563	3,190	5,382
Net income and comprehensive income for the period		22,243	11,856	21,128	22,163
Attributable to:					
Owners of the Corporation		16,183	5,321	8,322	8,793
Non-controlling interest		6,060	6,535	12,806	13,370
		22,243	11,856	21,128	22,163
Earnings per share attributable to owners of the Corporation					
Basic	5	\$ 0.54	\$ 0.17	\$ 0.27	\$ 0.28
Fully diluted	5	\$ 0.19	\$ 0.15	\$ 0.25	\$ 0.28

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	Six Months Ended June 30,	
		2022	2021
		\$	\$
Cash flows from operating activities			
Net income for the period		21,128	22,163
Adjustments for:			
Depreciation of property and equipment		4,660	4,685
Depreciation of right-of-use assets		5,243	5,078
Amortization of other intangibles		316	3,766
Impairment loss on loan receivable	11.1	3,990	-
Share of equity loss in associates	11.1	266	142
Change in value of exchangeable interest liability		(4,102)	(385)
Loss (gain) on foreign currency		13	(2)
Income tax expense	9	3,190	5,382
Share-based compensation	13.1	100	161
Interest expense, net of interest income		6,656	8,001
Other non-cash gain		(5)	(15)
		41,455	48,976
Net changes in non-cash operating working capital	7	(12,407)	(2,161)
		29,048	46,815
Interest paid, net of received		(5,289)	(6,482)
Income and withholding taxes received (paid)		2,099	(2,801)
Net cash provided by operating activities		25,858	37,532
Cash flows from investing activities			
Purchase of property and equipment		(1,610)	(4,362)
Proceeds from sale of non-controlling interest in Black Hills Surgical Physicians, LLC	1	336	-
Investment in St. Luke's Surgery Center of Chesterfield, LLC	11.1	(256)	(105)
Investment by (redemption of) non-controlling interest in MFC Nueterra ASCs		10	(120)
Net cash used in investing activities		(1,520)	(4,587)
Cash flows from financing activities			
Net repayments of revolving credit facilities and issuance of notes payable		(3,520)	(5,457)
Repayments of notes payable by the Facilities		(3,442)	(5,543)
Payment of lease liabilities		(6,131)	(6,032)
Loan receivable from an associate	11.1	150	-
Distributions to non-controlling interest		(13,961)	(17,177)
Dividends paid		(3,918)	(3,444)
Purchase of common shares under the terms of a normal course issuer bid	6	(6,851)	-
Net cash used in financing activities		(37,673)	(37,653)
Decrease in cash and cash equivalents		(13,335)	(4,708)
Effect of exchange rate fluctuations on cash balances held		(13)	2
Cash and cash equivalents, beginning of the period		61,044	66,182
Cash and cash equivalents, end of the period		47,696	61,476

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 six months ended June 30, 2022
(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 (“TSX”) under the ticker symbol “DR”.

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

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

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

Subsidiary	Location	Ownership Interest June 30,	
		2022	2021
Arkansas Surgical Hospital, LLC (“ASH”)	North Little Rock, Arkansas	51.0%	51.0%
Oklahoma Spine Hospital, LLC (“OSH”)	Oklahoma City, Oklahoma	64.0%	64.0%
Black Hills Surgical Hospital, LLP (“BHSH”)	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP (“SFSH”)	Sioux Falls, South Dakota	51.0%	51.0%
The Surgery Center of Newport Coast (“SCNC”)	Newport Beach, California	51.0%	51.0%
MFC Nueterra ASCs ⁽¹⁾	Various	45.5%	46.2%

⁽¹⁾ The Corporation has an average ownership interest of 45.5% based on values as at the reporting date. The five ambulatory surgery centers are situated in Michigan, Missouri, Nebraska, Ohio, and Pennsylvania.

2. STATEMENT OF COMPLIANCE

These 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, 2021 (“annual financial statements”).

These consolidated financial statements were approved for issue by the Corporation’s Board of Directors on August 10, 2022.

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 six months ended June 30, 2022
(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

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The outbreak began to impact the Corporation’s and Facilities’ operations in the latter half of March 2020. All Facilities were affected by the pandemic as elective cases were restricted, either voluntarily or by U.S. state or local government mandate, including the temporary closure of three of the MFC Nueterra ASCs, which reopened in May 2020. Management expects patient volumes and revenues will continue to be negatively impacted until the effects of the pandemic have fully subsided and the economy stabilizes.

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

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 six months ended June 30, 2022
(Unaudited)

4. COVID-19 (Continued)

The *Coronavirus Aid, Relief, and Economic Security (CARES) Act* (the “CARES Act”) was signed into law on March 27, 2020. The CARES Act includes 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 is 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 is 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 will be used to prevent, prepare for and respond to COVID-19. For the six months ended June 30, 2022, certain Facilities received \$932 in total funding from the HHS (June 30, 2021: \$3,311), and recognized \$1,434 in revenue as government stimulus income (June 30, 2021: \$3,311), which included an amount of \$502 which was recorded as a liability as at December 31, 2021.

The PPP expands the guaranteed lending program under Section 7(a) of the Small Business Act administered by the US Small Business Administration (“SBA”). The loan amounts received are eligible for forgiveness to the extent they are used for certain qualifying expenses and to maintain payroll levels and related expenses during the 8 to 24-week period following loan origination. For the six months ended June 30, 2022, the Facilities did not receive any funds under the PPP (June 30, 2021: \$1,479).

Income was recognized for the loans received under the PPP during prior periods based on reasonable assurance that the Facilities had met the requirements for forgiveness. Of the loans received under the PPP of \$12,226 during the year ended December 31, 2020, loans of \$1,655 have been forgiven in full by the SBA, while loans of \$6,434 are pending additional review. The remaining balance of \$4,137, relating to one Facility, was denied forgiveness by the SBA on April 20, 2022, against which the Facility filed an appeal. On July 18, 2022, the SBA withdrew its earlier decision to deny forgiveness on the loan. The loan forgiveness application for such amount is once again under further review of the SBA as the Facility awaits forgiveness. Based on the merits of the application and appeal, management believes they meet the criteria for loan forgiveness. Loans received under the PPP of \$1,479 during the year ended December 31, 2021 are also pending forgiveness from the SBA, of which loans of \$867 are pending additional review. Any loans not forgiven will result in a reversal of income previously recorded and a recording of a liability.

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 six months ended June 30, 2022
(Unaudited)

4. COVID-19 (Continued)

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 commences one year after issuance, upon which payments will be recouped against Medicare claims at a rate of 25% for eleven months, followed by a rate of 50% for the succeeding six months, after which any remaining balance will need to be repaid in full within one month. The initial 11-month recoupment period ended in March 2022, upon which the succeeding 6-month recoupment period began, such that \$16,842 has been recouped as at June 30, 2022 (December 31, 2021: \$7,947). The remaining \$6,315 is recorded as a liability under payor advances and government stimulus funds repayable as at June 30, 2022 (December 31, 2021: \$15,210).

The ERC is a refundable tax credit against certain employment taxes that can be claimed by eligible employers, whose business has been financially impacted by COVID-19, in their quarterly employment tax returns. For the six months ended June 30, 2022, certain Facilities have had claims approved under the ERC and recorded government stimulus income of \$608 (June 30, 2021: \$nil).

In addition to the CARES Act, the *Families First Coronavirus Response Act* (“FFCRA”) was signed into law on March 18, 2020. This program mandates COVID-19 related family medical and paid sick leaves for employees and provides tax credits to reimburse employers for both sick leave and family medical leave. For the six months ended June 30, 2021, certain Facilities qualified for the tax credits under the FFCRA and recorded government stimulus income of \$52.

For the six months ended June 30, 2022, the Facilities did not receive any other stimulus funds under state programs (June 30, 2021: \$1,342), but recognized \$131 in revenue as government stimulus income (June 30, 2021: \$1,342), which was recorded as a liability as at December 31, 2021.

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
HHS	-	564	1,434	3,311
ERC	363	-	608	-
FFCRA	-	8	-	52
Other	-	-	131	1,342
Government stimulus income	363	572	2,173	4,705

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 six months ended June 30, 2022
(Unaudited)

4. COVID-19 (Continued)

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

On March 11, 2021, the *American Rescue Plan Act, 2021* (the “ARP Act”) was signed into law, which is a \$1.9 trillion economic stimulus package intended to facilitate recovery in the United States from the economic and health effects of COVID-19. Among its provisions, the ARP Act includes \$7.25 billion in appropriations to the SBA for the PPP, and a further extension of the ERC. The Facilities may be eligible for further funding under the ARP Act.

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

5. EARNINGS PER SHARE

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

	Three Months Ended June 30,	
	2022	2021
Net income for the period attributable to owners of the Corporation	\$ 16,183	5,321
Divided by weighted average number of common shares outstanding for the period	30,196,779	31,106,259
Basic earnings per share	\$ 0.54	0.17

	Six Months Ended June 30,	
	2022	2021
Net income for the period attributable to owners of the Corporation	\$ 8,322	8,793
Divided by weighted average number of common shares outstanding for the period	30,359,995	31,106,259
Basic earnings per share	\$ 0.27	0.28

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 six months ended June 30, 2022
(Unaudited)

5. EARNINGS PER SHARE (Continued)

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

	Three Months Ended June 30,	
	2022	2021
Net income for the period attributable to owners of the Corporation	\$ 16,183	5,321
Change in value of exchangeable interest liability (tax effected)	(10,948)	(1,773)
Interest expense on exchangeable interest liability	1,712	2,145
Modified net income for the period attributable to owners of the Corporation	\$ 6,947	5,693
Weighted average number of common shares:		
Outstanding for the period	30,196,779	31,106,259
Deemed to be issued on the exchange of the outstanding exchangeable interest liability	6,141,507	6,081,201
Deemed to be issued as share-based compensation	36,839	-
Weighted average number of common shares ⁽¹⁾	36,375,125	37,187,460
Fully diluted earnings per share	\$ 0.19	0.15

⁽¹⁾ For the three months ended June 30, 2021, 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 June 30, 2021.

	Six Months Ended June 30,	
	2022	2021
Net income for the period attributable to owners of the Corporation	\$ 8,322	8,793
Change in value of exchangeable interest liability (tax effected)	(3,118)	-
Interest expense on exchangeable interest liability	3,903	-
Modified net income for the period attributable to owners of the Corporation	\$ 9,107	8,793
Weighted average number of common shares:		
Outstanding for the period	30,359,995	31,106,259
Deemed to be issued on the exchange of the outstanding exchangeable interest liability	6,135,230	-
Deemed to be issued as share-based compensation	-	31,210
Weighted average number of common shares ⁽¹⁾⁽²⁾	36,495,225	31,137,469
Fully diluted earnings per share	\$ 0.25	0.28

⁽¹⁾ For the six months ended June 30, 2022, 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 June 30, 2022.

⁽²⁾ For the six months ended June 30, 2021, the impact of exchangeable interest liability was excluded from the dilutive weighted average number of common shares calculation because it was not applicable based on the share price prevailing at June 30, 2021.

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 six months ended June 30, 2022
(Unaudited)

6. NORMAL COURSE ISSUER BID

The Corporation has a normal course issuer bid in effect from December 1, 2021 to November 30, 2022. Under the normal course issuer bid, the Corporation may purchase up to 3,101,774 of its common shares (increased from 1,555,312, effective April 7, 2022), subject to certain purchase restrictions and in compliance with the rules of the TSX. During the six months ended June 30, 2022, the Corporation purchased 967,100 of its common shares for a total consideration of \$6,851 from the open market. During the six months ended June 30, 2021, the Corporation did not have a normal course issuer bid in effect and therefore did not purchase any of its common shares.

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

7. 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:

	Six Months Ended June 30,	
	2022	2021
	\$	\$
Accounts receivable	588	3,994
Supply inventory	231	1,017
Prepaid expenses and other	825	(287)
Accounts payable	(1,712)	(6,073)
Accrued liabilities	(2,811)	44
Payor advances and government stimulus funds repayable	(9,528)	(856)
Net changes in non-cash working capital	(12,407)	(2,161)

8. FINANCIAL INSTRUMENTS

8.1 Fair values and classification of financial instruments

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

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 six months ended June 30, 2022
(Unaudited)

8. FINANCIAL INSTRUMENTS (Continued)

The following table presents the carrying values and classification of the Corporation's financial instruments as at June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
	\$	\$
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	47,696	61,044
Amortized cost		
Accounts receivable	60,856	61,444
Loan receivable	9,394	13,384
Financial liabilities		
Fair value through profit or loss		
Exchangeable interest liability	41,476	45,578
Amortized cost		
Dividends payable	1,865	1,961
Accounts payable	22,228	23,940
Accrued liabilities	22,128	24,939
Corporate credit facility	21,000	26,000
Long-term debt	51,608	53,570

The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at amortized cost or fair value through profit or loss as of June 30, 2022 and December 31, 2021. They do not include fair value information for financial instruments which are short-term in nature.

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	47,696	-	-	47,696
Loan receivable	-	-	9,394	9,394
Financial liabilities				
Exchangeable interest liability	-	41,476	-	41,476
Corporate credit facility	-	21,000	-	21,000
Long-term debt	-	51,608	-	51,608
Total	47,696	114,084	9,394	171,174

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

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 six months ended June 30, 2022
(Unaudited)

8. FINANCIAL INSTRUMENTS (Continued)

8.2 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 or 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, BSBY, SOFR or LIBOR rates adjusted for the Facilities' risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals and interest payments discounted to present value.

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

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

9. 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 June 30,		Six Months Ended June 30,	
	2022 \$	2021 \$	2022 \$	2021 \$
Current	726	1,177	1,188	2,405
Deferred	4,558	2,386	2,002	2,977
Total income tax expense	5,284	3,563	3,190	5,382

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 six months ended June 30, 2022
(Unaudited)

10. INTEREST EXPENSE, NET OF INTEREST INCOME

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Interest expense at Facilities' level	478	484	957	1,004
Interest expense at corporate level	111	139	214	318
Interest expense on lease liabilities	673	747	1,368	1,518
Amortization of deferred financing costs and stand-by fees	144	267	292	351
Interest income at Facilities' level	(6)	(11)	(11)	(14)
Interest income at corporate level	(48)	(11)	(67)	(20)
Interest expense, net of interest income	1,352	1,615	2,753	3,157

11. RELATED PARTY TRANSACTIONS AND BALANCES

11.1 Equity accounted investments

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

Entity	Accounting Method	June 30, 2022		December 31, 2021	
		Ownership Interest	Investment Balance	Ownership Interest	Investment Balance
			\$		\$
Mountain Plains Real Estate Holdings, LLC ("MPREH") ⁽¹⁾	Equity	54.2%	766	54.2%	776
BHSP ⁽²⁾	Cost	-	-	0.4%	341
St. Luke's Surgery Center of Chesterfield, LLC ("St. Luke's") ⁽³⁾	Equity	27.1%	-	27.1%	-
UMASH ⁽⁴⁾	Equity	31.7%	-	31.7%	-
			766		1,117

⁽¹⁾ During the six months ended June 30, 2022, a loan receivable by the Corporation of \$150 from MPREH was repaid. This was recorded in Prepaid expenses and other assets as at December 31, 2021.

⁽²⁾ On March 11, 2022, the Corporation sold its 0.4% non-controlling ownership interest in BHSP for proceeds of \$336.

⁽³⁾ During the six months ended June 30, 2022, the Corporation invested an additional \$256 in St. Luke's. The investment balance was written down to nil due to the Corporation's share of losses recognized.

⁽⁴⁾ The Corporation has a loan receivable of \$9,394 from UMASH as at June 30, 2022 (December 31, 2021: \$13,384). During the six months ended June 30, 2022, the Corporation recorded an impairment loss of \$3,990 on the loan receivable from UMASH, based on the updated loan impairment expected credit loss model as at March 31, 2022.

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 six months ended June 30, 2022
(Unaudited)

11. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

11.2 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 six months ended June 30, 2022 of \$2,251 (June 30, 2021: \$2,251).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. For the six months ended June 30, 2021, BSHH paid MPREH \$90 for the use of a facility.

11.3 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.

12. COMMITMENTS AND CONTINGENCIES

12.1 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.

12.2 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.

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 six months ended June 30, 2022
(Unaudited)

13. SHARE-BASED COMPENSATION

13.1 Stock options

The following table summarizes the outstanding number of stock options as of June 30, 2022:

Optionee	Number of Options Held	Number of Options Vested	Exercise Price	Grant Date
Chief Executive Officer	450,000	-	C\$14.03	March 29, 2018
	350,000	350,000	C\$16.47	May 18, 2017
Chief Financial Officer	300,000	-	C\$12.79	June 24, 2019
Chief Development Officer	350,000	350,000	C\$21.15	September 19, 2016
Chief Operating Officer	50,000	-	C\$ 2.64	March 19, 2020
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	1,944,906	1,144,906		

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 June 30, 2022, 1,144,906 of the Options relating to the Chief Executive Officer, the Chief Development Officer, the Former Chief Executive Officer and the Former Chief Financial Officer are vested.

During the six months ended June 30, 2022, the Corporation recognized \$100 (June 30, 2021: \$161) relating to the Options in salaries and benefits expense.

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:

	Q1 2020 Grant Issued	Q2 2019 Grant Issued	Q1 2018 Grant Issued	Q2 2017 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\$0.45	C\$ 1.20	C\$ 1.33	C\$ 1.27	C\$ 1.41	C\$ 2.00	C\$ 1.33
Share price at grant date	C\$2.64	C\$12.90	C\$14.03	C\$16.68	C\$18.19	C\$21.57	C\$17.01
Exercise price	C\$2.64	C\$12.79	C\$14.03	C\$16.47	C\$17.98	C\$21.15	C\$17.24
Expected volatility (weighted average volatility)	50.70%	29.77%	27.76%	22.77%	21.77%	21.95%	23.60%
Option life (expected weighted average life)	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Expected dividends	10.61%	8.72%	8.02%	6.74%	6.18%	5.22%	6.61%
Risk-free rate	0.68%	1.34%	1.96%	0.99%	0.99%	0.73%	1.03%

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 six months ended June 30, 2022
(Unaudited)

13. SHARE-BASED COMPENSATION (Continued)

13.2 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 six months ended June 30, 2022, director compensation included DSU grants of \$415 (June 30, 2021: \$227), while the change in market value of outstanding DSUs for the same period was a recovery of \$223 (June 30, 2021: expense of \$3).

The following table summarizes changes in the number of DSUs for the six months ended June 30, 2022:

	2022
Opening balance of DSUs at January 1, 2022	366,806
DSUs granted on director fees	53,924
DSUs granted on dividend reinvestment	5,939
DSUs paid out	(149,646)
Total number of DSUs at June 30, 2022	277,023

13.3 Restricted share units

Compensation for executive officers of the Corporation included a restricted share unit (“RSU”) component, for which grants based on the value of the Corporation’s common shares were made annually up to 2018, and from time to time. Effective 2018, annual RSU grants were replaced by annual performance share unit (“PSU”) grants. The RSUs vested over three years, participated in the Corporation’s quarterly dividends, and settled in cash. Grants were made on November 21, 2016 for 14,920 RSUs, July 1, 2017 for 21,804 RSUs, and on May 10, 2018 for 17,040 RSUs. The value of the expense and liability associated with the RSUs was determined based on the Corporation’s share price at the end of each reporting period. For the six months ended June 30, 2021, operating expenses included an RSU expense of \$9. On May 10, 2021 all outstanding RSUs vested, after which they were paid out in the same quarter.

13.4 Performance share unit plan

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

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 six months ended June 30, 2022
(Unaudited)

13. SHARE-BASED COMPENSATION (Continued)

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.

13.4.1 Performance share units

To date, 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 six months ended June 30, 2022, operating expenses included a PSU expense of \$79 (June 30, 2021: \$42). On March 29, 2022, all outstanding PSUs vested, after which they were paid out in the same quarter.

The following table summarizes changes in the number of PSUs for the six months ended June 30, 2022:

	2022
Opening balance of PSUs at January 1, 2022	34,860
PSUs granted on dividend reinvestment	314
PSUs vested and settled	(29,310)
PSUs forfeited	(5,864)
Total number of PSUs at June 30, 2022	-

13.4.2 Share units

To date, SU grants were made on March 31, 2020 for 346,638 Executive DSUs, on March 31, 2021 for 175,898 Executive DSUs, and on March 31, 2022 for 150,348 Executive DSUs. The value of the expense and liability associated with the SUs is determined based on the Corporation's share price at the end of each reporting period. For the six months ended June 30, 2022, operating expenses included an SU expense of \$601 (June 30, 2021: \$492). As at June 30, 2022, the liability for SUs was \$2,696 (December 31, 2021: \$2,095).

The following table summarizes changes in the number of SUs for the six months ended June 30, 2022:

	2022
Opening balance of SUs at January 1, 2022	559,004
SUs granted	150,348
SUs granted on dividend reinvestment	9,814
Total number of SUs at June 30, 2022	719,166

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 six months ended June 30, 2022

(Unaudited)

14. 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.

14.1 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.