

Interim Condensed Consolidated Financial Statements of

**MEDICAL FACILITIES
CORPORATION**

For the three and nine months ended September 30, 2021

(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, 2021 \$	December 31, 2020 \$
Note	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	63,032	66,182
Accounts receivable	57,591	60,212
Supply inventory	10,242	9,329
Prepaid expenses and other	7,224	6,856
Income tax receivable	5,557	4,023
Total current assets	143,646	146,602
Non-current assets		
Loan receivable	5.3, 11.1 13,384	13,384
Deferred income tax assets	387	310
Property and equipment	77,542	78,226
Right-of-use assets	56,938	59,669
Goodwill	135,983	135,983
Other intangibles	15,999	21,680
Other assets	11.1 1,105	1,142
Total non-current assets	301,338	310,394
TOTAL ASSETS	444,984	456,996
LIABILITIES AND EQUITY		
Current liabilities		
Dividends payable	1,717	1,710
Accounts payable	19,879	24,465
Accrued liabilities	22,631	21,201
Current portion of long-term debt	15,301	18,964
Current portion of lease liabilities	9,186	9,084
Payor advances and government stimulus funds repayable	4 20,347	26,185
Total current liabilities	89,061	101,609
Non-current liabilities		
Long-term debt	41,456	40,713
Lease liabilities	53,206	55,193
Deferred income tax liability	12,932	12,275
Corporate credit facility	31,000	38,000
Exchangeable interest liability	46,213	34,039
Total non-current liabilities	184,807	180,220
Total liabilities	273,868	281,829
Equity		
Share capital	398,114	398,114
Contributed surplus	1,805	1,567
Deficit	(272,107)	(272,149)
Equity attributable to owners of the Corporation	127,812	127,532
Non-controlling interest	43,304	47,635
Total equity	171,116	175,167
TOTAL LIABILITIES AND EQUITY	444,984	456,996

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)			
		\$	\$	\$	\$	\$	
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		-	-	5,248	5,248	20,342	25,590
Share-based compensation	13.1	-	238	-	238	-	238
Dividends to owners of the Corporation		-	-	(5,206)	(5,206)	-	(5,206)
Distributions to non-controlling interest		-	-	-	-	(24,511)	(24,511)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(162)	(162)
Balance at September 30, 2021		398,114	1,805	(272,107)	127,812	43,304	171,116
2020							
Balance at January 1, 2020		398,114	1,400	(274,466)	125,048	48,296	173,344
Net income and comprehensive income for the period		-	-	11,884	11,884	18,183	30,067
Share-based compensation	13.1	-	231	-	231	-	231
Dividends to owners of the Corporation		-	-	(4,786)	(4,786)	-	(4,786)
Distributions to non-controlling interest		-	-	-	-	(17,606)	(17,606)
Sale of controlling interest in Unity Medical and Surgical Hospital	5	-	-	-	-	(1,031)	(1,031)
Sale of Two Rivers Surgical Center		-	-	-	-	(790)	(790)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(149)	(149)
Balance at September 30, 2020		398,114	1,631	(267,368)	132,377	46,903	179,280

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 September 30,		Nine Months Ended September 30,	
		2021 \$	2020 \$	2021 \$	2020 \$
Revenue and other income					
Facility service revenue		96,388	96,322	287,956	256,743
Government stimulus income	4	2,652	2,491	7,357	23,636
		99,040	98,813	295,313	280,379
Operating expenses					
Salaries and benefits		29,978	28,795	88,097	84,176
Drugs and supplies		31,057	32,696	92,711	86,021
General and administrative expenses		14,661	12,772	42,331	42,921
Depreciation of property and equipment		2,325	2,445	7,010	7,397
Depreciation of right-of-use assets		2,549	2,483	7,627	7,573
Amortization of other intangibles		1,915	2,050	5,681	6,098
		82,485	81,241	243,457	234,186
Income from operations		16,555	17,572	51,856	46,193
Finance costs					
Change in value of exchangeable interest liability		12,559	(23)	12,174	(1,501)
Interest expense on exchangeable interest liability		1,711	2,061	6,555	4,654
Interest expense, net of interest income	10	1,468	2,216	4,625	4,567
Impairment gain on loan receivable	5.3	-	-	-	(681)
Loss (gain) on foreign currency		(11)	38	(13)	53
		15,727	4,292	23,341	7,092
Share of equity loss (income) in associates	11.1	(5)	672	137	1,606
Income before income taxes		833	12,608	28,378	37,495
Income tax expense (recovery)	9	(2,594)	2,786	2,788	5,689
Net income for the period from continuing operations		3,427	9,822	25,590	31,806
Discontinued operations					
Net loss for the period from discontinued operations, net of tax	5.1	-	-	-	(1,739)
Net income and comprehensive income for the period		3,427	9,822	25,590	30,067
Attributable to:					
Owners of the Corporation		(3,545)	2,998	5,248	11,884
Non-controlling interest		6,972	6,824	20,342	18,183
		3,427	9,822	25,590	30,067
Earnings (loss) per share attributable to owners of the Corporation					
From continuing and discontinued operations					
Basic	6	\$ (0.11)	\$ 0.10	\$ 0.17	\$ 0.38
Fully diluted	6	\$ (0.11)	\$ 0.10	\$ 0.17	\$ 0.38
From continuing operations					
Basic	6	\$ (0.11)	\$ 0.10	\$ 0.17	\$ 0.41
Fully diluted	6	\$ (0.11)	\$ 0.10	\$ 0.17	\$ 0.41

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,	
		2021 \$	2020 (As adjusted – note 4) \$
Cash flows from operating activities			
Net income for the period		25,590	30,067
Adjustments for:			
Depreciation of property and equipment		7,010	7,397
Depreciation of right-of-use assets		7,627	7,573
Amortization of other intangibles		5,681	6,098
Impairment gain on loan receivable	5.3	-	(681)
Share of equity loss in associates	11.1	137	1,606
Change in value of exchangeable interest liability		12,174	(1,501)
Loss (gain) on foreign currency		(13)	53
Income tax expense		2,788	5,375
Share-based compensation	13.1	238	231
Interest expense, net of interest income		11,180	10,523
Gain on sale of Two Rivers Surgical Center		-	(209)
Other non-cash (gain) loss		(1,990)	759
		70,422	67,291
Net changes in non-cash operating working capital	7	(5,675)	34,820
		64,747	102,111
Interest paid, net of received		(8,939)	(8,569)
Income and withholding taxes paid		(3,742)	(3,540)
Net cash provided by operating activities		52,066	90,002
Cash flows from investing activities			
Purchase of property and equipment		(6,325)	(5,248)
Redemption of non-controlling interest in MFC Nueterra ASCs		(162)	(149)
Investment in St. Luke's Surgery Center of Chesterfield, LLC	11.1	(105)	-
Proceeds from Unity Medical and Surgical Hospital transactions		-	25,819
Proceeds from sale of Two Rivers Surgical Center		-	950
Investment in Unity Medical and Surgical Hospital subsequent to sale		-	(793)
Net cash provided by (used in) investing activities		(6,592)	20,579
Cash flows from financing activities			
Net repayments of revolving credit facilities and issuance of notes payable		(2,374)	(22,833)
Repayments of notes payable by the Facilities		(7,546)	(5,181)
Payment of lease liabilities		(9,007)	(9,178)
Distributions to non-controlling interest		(24,511)	(17,606)
Dividends paid		(5,199)	(4,270)
Net cash used in financing activities		(48,637)	(59,068)
Increase (decrease) in cash and cash equivalents		(3,163)	51,513
Effect of exchange rate fluctuations on cash balances held		13	(53)
Cash and cash equivalents, beginning of the period		66,182	31,986
Cash and cash equivalents, end of the period		63,032	83,446

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, 2021
(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”).

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

Subsidiary	Location	Ownership Interest September 30,	
		2021	2020
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	46.8%	45.6%

⁽¹⁾ The Corporation has an average ownership interest of 46.8% 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, 2020 (“annual financial statements”) and presented in note 14 to these consolidated financial statements.

These consolidated financial statements were approved for issue by the Corporation’s Board of Directors on November 10, 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 nine months ended September 30, 2021
(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 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 nine months ended September 30, 2021
(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 nine months ended September 30, 2021, certain Facilities have received \$3,311 in total funding from the HHS and recognized all of it in revenue as government stimulus income. The Facilities received \$14,542 in total funding from the HHS for the year ended December 31, 2020, of which \$2,526 was recognized as income during the three months ended September 30, 2021, and \$502 may be repayable, and is recorded as a liability as at September 30, 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-week to 24-week period following loan origination. Under the PPP, certain Facilities have received \$1,479 for the nine months ended September 30, 2021, all of which is recorded as a liability as at September 30, 2021. This is expected to be recognized as income in future quarters.

Certain Facilities received loans of \$12,226 under the PPP for the year ended December 31, 2020, all of which have been forgiven in full by the SBA, with the exception of a loan for \$4,137, which is pending additional review.

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 began in April 2021, such that \$5,113 has been recouped as at September 30, 2021. The remaining \$18,044 is recorded as a liability under payor advances and government stimulus funds repayable as at September 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 nine months ended September 30, 2021

(Unaudited)

4. COVID-19 (Continued)

For the comparative period in the interim condensed consolidated statements of cash flows, management has reclassified the cash flows from payor advances and government stimulus funds repayable from financing activities to operating activities, and included these in the net changes in non-cash working capital (note 7), as these are a result of the Corporation's operational activities. For the nine months ended September 30, 2020, net cash provided by operating activities of \$63,596 (as reported) has been adjusted to \$90,002 (as adjusted), and net cash used in financing activities of \$32,662 (as reported) has been adjusted to \$59,068 (as adjusted).

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. Certain Facilities have submitted claims under this program in their quarterly employment tax returns, which are pending approval.

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. Certain Facilities have qualified for the tax credits under the FFCRA and recorded government stimulus income.

Certain Facilities have also received other stimulus funds under state programs of \$1,783, and recognized \$1,461 in revenue as government stimulus income for the nine months ended September 30, 2021. The remaining amount of \$322 is recorded as a liability as at September 30, 2021, and is expected to be recognized as income in future quarters.

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 from continuing operations included in the interim condensed consolidated statements of income and comprehensive income consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
HHS	2,526	1,485	5,837	10,037
PPP	-	140	-	12,106
ERC	-	360	-	360
FFCRA	7	7	59	634
Other	119	499	1,461	499
Government stimulus income	2,652	2,491	7,357	23,636

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, 2021

(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. Any loans not forgiven will result in a reversal of income previously recorded and a recording of a liability.

5. DISCONTINUED OPERATIONS

On February 24, 2020, the Corporation sold the majority of its interest (decreasing to 31.7% from 87.6%) in Unity Medical and Surgical Hospital (“UMASH”). As of the date of the transaction, the Corporation no longer consolidates the financial results of UMASH and accounts for its interest under the equity method of accounting. In connection with the transaction, the Corporation recorded an impairment gain of \$681 on the loan receivable from UMASH (“loan receivable”) during the nine months ended September 30, 2020.

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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, 2021
(Unaudited)

5. DISCONTINUED OPERATIONS (Continued)

5.1 Results of discontinued operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Facility service revenue	-	-	-	3,663
Operating expenses				
Salaries and benefits	-	-	-	1,707
Drugs and supplies	-	-	-	1,115
General and administrative expenses	-	-	-	1,592
	-	-	-	4,414
Loss from operations	-	-	-	(751)
Interest expense, net of interest income	-	-	-	1,302
Loss before income taxes	-	-	-	(2,053)
Income tax recovery	-	-	-	(314)
Net loss for the period from discontinued operations, net of tax	-	-	-	(1,739)

5.2 Cash flows from discontinued operations

	Nine Months Ended September 30,	
	2021	2020
	\$	\$
Net cash provided by operating activities	-	334
Net cash provided by investing activities	-	386
Net cash used in financing activities	-	(338)
Net cash flow for the period	-	382

5.3 Loan receivable from UMASH

	\$
Loan receivable from UMASH at February 24, 2020	11,801
Interest income	902
Impairment gain on loan receivable	681
Loan receivable from UMASH at December 31, 2020	13,384
Loan receivable from UMASH at September 30, 2021	13,384

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, 2021

(Unaudited)

6. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended September 30,					
	2021			2020		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	\$ (3,545)	-	(3,545)	2,998	-	2,998
Divided by weighted average number of common shares outstanding for the period	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259
Basic earnings (loss) per share attributable to owners of the Corporation	\$ (0.11)	-	(0.11)	0.10	-	0.10

	Nine Months Ended September 30,					
	2021			2020		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	\$ 5,248	-	5,248	12,662	(778)	11,884
Divided by weighted average number of common shares outstanding for the period	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259
Basic earnings (loss) per share attributable to owners of the Corporation	\$ 0.17	-	0.17	0.41	(0.03)	0.38

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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, 2021
(Unaudited)

6. EARNINGS (LOSS) PER SHARE (Continued)

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

	Three Months Ended September 30,					
	2021			2020		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	\$ (3,545)	-	(3,545)	2,998	-	2,998
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	\$ (3,545)	-	(3,545)	2,998	-	2,998
Weighted average number of common shares:						
Outstanding for the period	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259
Deemed to be issued on the exchange of the outstanding exchangeable interest liability	-	-	-	-	-	-
Deemed to be issued as share-based compensation	-	-	-	-	-	-
Weighted average number of common shares ⁽¹⁾⁽²⁾	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259
Fully diluted earnings (loss) per share	\$ (0.11)	-	(0.11)	0.10	-	0.10

⁽¹⁾ For the three months ended September 30, 2021, the impacts of exchangeable interest liability and share-based compensation were excluded from the dilutive weighted average number of common shares calculation because they were not applicable based on the share price prevailing at September 30, 2021.

⁽²⁾ For the three months ended September 30, 2020, the impacts of exchangeable interest liability and share-based compensation were excluded from the dilutive weighted average number of common shares calculation because they were not applicable based on the share price prevailing at September 30, 2020.

MEDICAL FACILITIES CORPORATION

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

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6. EARNINGS (LOSS) PER SHARE (Continued)

	Nine Months Ended September 30,					
	2021			2020		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	\$ 5,248	-	5,248	12,662	(778)	11,884
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	\$ 5,248	-	5,248	12,662	(778)	11,884
Weighted average number of common shares:						
Outstanding for the period	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259
Deemed to be issued on the exchange of the outstanding exchangeable interest liability	-	-	-	-	-	-
Deemed to be issued as share-based compensation	-	-	-	-	-	-
Weighted average number of common shares ⁽¹⁾⁽²⁾	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259	31,106,259
Fully diluted earnings (loss) per share	\$ 0.17	-	0.17	0.41	(0.03)	0.38

⁽¹⁾ For the nine months ended September 30, 2021, the impacts of exchangeable interest liability and share-based compensation were excluded from the dilutive weighted average number of common shares calculation because they were not applicable based on the share price prevailing at September 30, 2021.

⁽²⁾ For the nine months ended September 30, 2020, the impacts of exchangeable interest liability and share-based compensation were excluded from the dilutive weighted average number of common shares calculation because they were not applicable based on the share price prevailing at September 30, 2020.

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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:

	Nine Months Ended September 30,	
	2021	2020 (As adjusted – note 4)
	\$	\$
Accounts receivable	2,621	11,608
Supply inventory	1,066	(157)
Prepaid expenses and other	(368)	(2,516)
Accounts payable	(4,586)	(2,573)
Accrued liabilities	1,430	2,052
Payor advances and government stimulus funds repayable	(5,838)	26,406
Net changes in non-cash working capital	(5,675)	34,820

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.

The following table presents the carrying values and classification of the Corporation's financial instruments as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
	\$	\$
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	63,032	66,182
Amortized cost		
Accounts receivable	57,591	60,212
Loan receivable	13,384	13,384
Financial liabilities		
Fair value through profit or loss		
Exchangeable interest liability	46,213	34,039
Amortized cost		
Dividends payable	1,717	1,710
Accounts payable	19,879	24,465
Accrued liabilities	22,631	21,201
Corporate credit facility	31,000	38,000
Long-term debt	56,757	59,677

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8. 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, 2021 and December 31, 2020. They do not include fair value information for financial instruments which are short-term in nature.

	September 30, 2021			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Financial assets				
Cash and cash equivalents	63,032	-	-	63,032
Loan receivable	-	-	13,384	13,384
Financial liabilities				
Exchangeable interest liability	-	46,213	-	46,213
Corporate credit facility	-	31,000	-	31,000
Long-term debt	-	56,757	-	56,757
Total	63,032	133,970	13,384	210,386

	December 31, 2020			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Financial assets				
Cash and cash equivalents	66,182	-	-	66,182
Loan receivable	-	-	13,384	13,384
Financial liabilities				
Exchangeable interest liability	-	34,039	-	34,039
Corporate credit facility	-	38,000	-	38,000
Long-term debt	-	59,677	-	59,677
Total	66,182	131,716	13,384	211,282

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 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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8. FINANCIAL INSTRUMENTS (Continued)

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 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 CARES Act provides tax relief with a number of measures. It includes a temporary change to Section 172 of the U.S. Internal Revenue Code of 1986, as amended, (the "Code") such that net operating losses ("NOL") can be carried back five years. As a result of the change due to the CARES Act, the Corporation recorded refunds for the nine months ended September 30, 2020 of approximately \$5,100 based on the expected application of NOL carry backs generated in the 2019 and 2020 tax years.

The other significant change is that the CARES Act clarifies that Qualified Improvement Property is eligible for bonus depreciation (i.e., 100% expensing) under Section 168(k) of the Code, for which the Corporation estimated tax savings of approximately \$800 for the nine months ended September 30, 2020.

As at December 31, 2020, the tax impact of the CARES Act had been fully reflected in the annual financial statements of the Corporation. For tax years beginning 2021, certain reliefs provided by the CARES Act are not applicable, particularly with respect to NOL carry backs and the temporary increase of the interest deduction limit to 50%.

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 from continuing operations reported in these consolidated financial statements are as follows:

Provision for income taxes	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Current	(197)	(2,098)	2,208	(3,568)
Deferred	(2,397)	4,884	580	9,257
Total income tax expense (recovery) from continuing operations	(2,594)	2,786	2,788	5,689

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10. INTEREST EXPENSE, NET OF INTEREST INCOME

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
Interest expense at Facilities' level	486	657	1,490	2,000
Interest expense at corporate level	125	351	443	1,624
Interest expense on lease liabilities	722	801	2,240	2,380
Corporate credit facility stand-by fees	152	235	503	555
Interest income at Facilities' level	(4)	(6)	(18)	(19)
Interest income at corporate level	(13)	178	(33)	(1,973)
Interest expense, net of interest income, from continuing operations	1,468	2,216	4,625	4,567

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	September 30, 2021		December 31, 2020	
		Ownership Interest	Investment Balance \$	Ownership Interest	Investment Balance \$
Mountain Plains Real Estate Holdings, LLC ("MPREH")	Equity	54.2%	764	54.2%	751
South Dakota Interventional Pain Institute, LLC	Equity	-	-	32.0%	4
Black Hills Surgical Physicians, LLC	Cost	0.4%	341	0.4%	341
St. Luke's Surgery Center of Chesterfield, LLC ("St. Luke's ASC") ⁽¹⁾	Equity	27.1%	-	28.0%	46
UMASH ⁽²⁾⁽³⁾	Equity	31.7%	-	31.7%	-
			1,105		1,142

⁽¹⁾ During the nine months ended September 30, 2021, the Corporation invested an additional \$105 in St. Luke's ASC. The investment balance was written down to nil due to the Corporation's share of losses recognized.

⁽²⁾ On February 24, 2020, the Corporation sold the majority of its interest (decreasing to 31.7% from 87.6%) in UMASH. The investment balance was written down to nil due to the losses from February 25, 2020 onwards of \$1,416, which represent the Corporation's share recognized for the year ended December 31, 2020.

⁽³⁾ The Corporation has a loan receivable of \$13,384 from UMASH as at September 30, 2021 (December 31, 2020: \$13,384) (note 5.3).

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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 nine months ended September 30, 2021 of \$3,376 (September 30, 2020: \$3,375).

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 nine months ended September 30, 2021, BSHH paid MPREH \$135 for the use of a facility (September 30, 2020: \$135).

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.

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13. SHARE-BASED COMPENSATION

13.1 Stock options

The following table summarizes the outstanding number of stock options as of September 30, 2021:

Optionee	Number of Options Held	Exercise Price	Grant Date
Chief Executive Officer	450,000	C\$14.03	March 29, 2018
	350,000	C\$16.47	May 18, 2017
Chief Financial Officer	300,000	C\$12.79	June 24, 2019
Chief Development Officer	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	C\$17.24	May 1, 2016
Former Chief Financial Officer	221,344	C\$17.98	November 21, 2016
Total number of outstanding options	1,944,906		

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, 2021, 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 nine months ended September 30, 2021, the Corporation recognized \$238 (September 30, 2020: \$231) 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%

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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 nine months ended September 30, 2021, director compensation included DSU grants of \$341 (September 30, 2020: \$344), while the change in market value of outstanding DSUs for the same period was an expense of \$699 (September 30, 2020: recovery of \$22). The following table summarizes changes in the number of DSUs for the nine months ended September 30, 2021:

	2021
Opening balance of DSUs at January 1, 2021	328,378
DSUs granted on director fees	55,228
DSUs granted on dividend reinvestment	8,753
DSUs paid out	(49,448)
Total number of DSUs at September 30, 2021	342,911

13.3 Restricted share units

Compensation for executive officers of the Corporation includes a restricted share unit (“RSU”) component, for which grants based on the value of the Corporation’s common shares were made annually up to 2018. Effective 2018, annual RSU grants were replaced by annual performance share unit (“PSU”) grants. The RSUs vest over three years, participate in the Corporation’s quarterly dividends, and settle in cash. To date, 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 is determined based on the Corporation’s share price at the end of each reporting period. For the nine months ended September 30, 2021, operating expenses included an RSU expense of \$9 (September 30, 2020: \$14). On May 10, 2021 all outstanding RSUs vested, after which they were paid out in the same quarter. The following table summarizes changes in the number of RSUs for the nine months ended September 30, 2021:

	2021
Opening balance of RSUs at January 1, 2021	21,047
RSUs granted on dividend reinvestment	406
RSUs vested and settled	(21,453)
Total number of RSUs at September 30, 2021	-

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13. SHARE-BASED COMPENSATION (Continued)

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.

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 nine months ended September 30, 2021, operating expenses included a PSU expense of \$107 (September 30, 2020: \$19). As at September 30, 2021, the liability for PSUs was \$184. The following table summarizes changes in the number of PSUs for the nine months ended September 30, 2021:

	2021
Opening balance of PSUs at January 1, 2021	75,478
PSUs granted on dividend reinvestment	1,404
PSUs vested and settled	(28,182)
PSUs forfeited	(14,089)
Total number of PSUs at September 30, 2021	34,611

13.4.2 Share units

To date, SU grants were made on March 31, 2020 for 346,638 Executive DSUs, and on March 31, 2021 for 175,898 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, 2021, operating expenses included an SU expense of \$1,318 (September 30, 2020: \$193). As at September 30, 2021, the liability for SUs was \$1,940. The following table summarizes changes in the number of SUs for the nine months ended September 30, 2021:

	2021
Opening balance of SUs at January 1, 2021	365,065
SUs granted	175,898
SUs granted on dividend reinvestment	14,053
Total number of SUs at September 30, 2021	555,016

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14. SIGNIFICANT ACCOUNTING POLICIES

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

14.1 Basis of measurement

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

14.2 Functional presentation currency

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

14.3 Basis of consolidation

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

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

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

14.4 Business combinations

Business combinations are accounted for using the acquisition method as of the date when control is transferred to the Corporation. The Corporation measures goodwill as the excess of the sum of the fair value of the consideration transferred over the net identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Transaction costs that the Corporation incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in net income and comprehensive income.

At the date of the acquisition, the non-controlling interest is measured at the non-controlling interest's proportionate share of the fair value of identifiable assets of the acquiree. Contingent consideration in respect of certain acquisitions, accounted for as exchangeable interest liability, is recorded on the interim condensed consolidated balance sheet with periodic changes in fair value of that liability reflected in net income and comprehensive income.

14.5 Segment information

The operations and productive capacity of the Facilities revolve around the provision of surgical procedures. Each Facility is organized as an individual entity and separate financial statements are prepared for each entity. The chief operating decision makers of the Corporation, being the Chief Executive Officer and the Chief Financial Officer, regularly review performance of each individual Facility to make decisions about resources to be allocated to each Facility and assess their performance. Therefore, each Facility represents a separate operating segment.

Management of the Corporation has concluded that the operating segments of the Corporation meet the criteria for aggregation pursuant to IFRS 8, *Operating Segments* and, therefore, discloses a single reportable segment. In forming its conclusion about the aggregation of the Facilities, management of the Corporation evaluated the long-term economic characteristics of each Facility, the comparative nature of the Facilities' operations, and the level of regulation of each Facility.

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.6 Discontinued operations

A discontinued operation is a component of the Corporation's business which can be clearly distinguished from the rest of the Corporation, both operationally and for financial reporting purposes. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative interim condensed consolidated statement of income and comprehensive income is re-presented as if the operation has been discontinued from the start of the comparative year. Discontinued operations are excluded from the results of continuing operations and are presented as a single net of tax amount as net income from discontinued operations in the interim condensed consolidated statements of net income and comprehensive income.

14.7 Cash and cash equivalents

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

14.8 Short-term and long-term investments

Investments represent liquid investments purchased with a maturity of more than six months. Investments with maturities of more than six months but less than twelve months are classified as short-term and investments with maturities of twelve months or more are classified as long-term. The Corporation limits its exposure to credit risk through application of its investment policy. The policy permits investment of its cash and cash equivalents and short-term and long-term investments in (i) liquid securities issued or guaranteed by the Governments of Canada and the United States of America, or political subdivisions thereof and with (ii) certain Canadian chartered banks or banks regulated by the United States of America as listed in the policy. The carrying amount of investments represents the Corporation's maximum exposure to credit risk for such investments.

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.9 Accounts receivable

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

- (i) As described in note 14.22, amounts billed are reduced by adjustments for explicit and implicit price concessions.
- (ii) An allowance for non-collectible receivable balances is recognized at a level management believes is adequate to absorb probable losses. Management determines the adequacy of the allowance based on historical data, current economic conditions, and other pertinent factors for the respective Facility. Patient receivables are written off as non-collectible when all reasonable collection efforts have been exhausted.

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

14.10 Supply inventory

Supply inventory consists of medical supplies, including implants and pharmaceuticals. It is stated at the lower of cost or net realizable value, using the first-in, first-out valuation method. For the three months ended September 30, 2021, the Corporation recorded a gain of \$1,979 on the exchange of implant inventory as part of a new vendor agreement.

14.11 Property and equipment

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

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

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

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.12 Right-of-use assets

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

14.13 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of cost over the fair value of identifiable net assets acquired. For business acquisitions occurring after the date of transition to IFRS (January 1, 2010), goodwill is also recognized on non-controlling interest based on elections made independently for each acquisition. Goodwill is stated at cost less accumulated impairment losses. Goodwill is not amortized but is reviewed at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

14.14 Other intangibles

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

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

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

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

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.15 Impairment of non-financial assets

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

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

An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amount is calculated based on two approaches:

- 1) Value in use approach – The estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, and
- 2) Fair value less costs of disposal approach – The trailing twelve months EBITDA multiplied by a market multiple relevant to the CGU.

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

14.16 Financial assets and liabilities

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

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.17 Impairment of non-derivative financial assets

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

14.17.1 Financial assets measured at amortized cost

The Corporation considers evidence of impairment for financial assets measured at amortized cost on both an individual and collective basis. In assessing impairment, the Corporation uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that actual losses are likely to be greater or lesser than suggested by historical trends.

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

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

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.17.2 Equity-accounted investments

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

14.18 Measurements of fair value

A number of the Corporation's accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities.

Management of the Corporation regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from these sources to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

- Level 1 – unadjusted quoted prices available in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

14.19 Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the estimated expenditures required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values where the time value of money is material. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

14.20 Exchangeable interest liability

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

14.21 Leases

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.22 Facility service revenue

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

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

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

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

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.23 Government stimulus income

The Facilities may receive financial grants from the government in return for past or future compliance with certain conditions relating to their operating activities. These financial grants are recorded as government stimulus income by the Corporation when there is reasonable assurance that the Facilities will comply with the relevant conditions and the financial grant is received. If these conditions are not met, grants received are recognized as a liability under payor advances and government stimulus funds repayable.

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

14.24 Income taxes

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

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

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

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

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14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14.25 Share-based payments

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

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

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

14.26 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.