Interim Condensed Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

For the three and nine months ended September 30, 2022
(Unaudited)
(In U.S. dollars)

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MEDICAL FACILITIES CORPORATION

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

	Note	September 30, 2022 $ (Unaudited)	December 31, 2021 $
ASSETS			
Current assets			
Cash and cash equivalents		44,341	61,044
Accounts receivable		57,192	61,444
Supply inventory		10,406	10,649
Prepaid expenses and other		10,276	9,749
Income tax receivable		3,692	6,008
Total current assets		**125,907**	**148,894**
Non-current assets			
Loan receivable	12.1	-	13,384
Deferred income tax assets		205	386
Property and equipment		73,351	77,203
Right-of-use assets		50,308	55,550
Goodwill		135,983	135,983
Other intangibles		13,972	14,449
Other assets	12.1	760	1,117
Total non-current assets		**274,579**	**298,072**
TOTAL ASSETS		**400,486**	**446,966**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		1,711	1,961
Accounts payable		24,617	23,940
Accrued liabilities		23,690	24,939
Current portion of long-term debt		9,192	5,295
Current portion of lease liabilities		9,719	9,487
Payor advances and government stimulus funds repayable	4	909	15,843
Total current liabilities		**69,838**	**81,465**
Non-current liabilities			
Long-term debt		40,546	48,275
Lease liabilities		47,197	51,843
Deferred income tax liability		13,054	14,124
Corporate credit facility		21,000	26,000
Exchangeable interest liability		48,390	45,578
Total non-current liabilities		**170,187**	**185,820**
Total liabilities		**240,025**	**267,285**
Equity			
Share capital	6, 7	386,055	396,041
Contributed surplus		1,997	1,859
Deficit		(271,481)	(263,817)
Equity attributable to owners of the Corporation		**116,571**	**134,083**
Non-controlling interest		43,890	45,598
Total equity		**160,461**	**179,681**
TOTAL LIABILITIES AND EQUITY		**400,486**	**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)

		Attributable to Owners of the Corporation				Non-controlling Interest	Total Equity
	Note	**Share Capital $**	**Contributed Surplus $**	**Retained Earnings/ (Deficit) $**	**Total $**	**$**	**$**
2022							
Balance at January 1, 2022		396,041	1,859	(263,817)	134,083	45,598	179,681
Net income (loss) and comprehensive income (loss) for the period		-	-	(2,131)	(2,131)	17,763	15,632
Share-based compensation	14.1	-	138	-	138	-	138
Dividends to owners of the Corporation		-	-	(5,533)	(5,533)	-	(5,533)
Distributions to non-controlling interest		-	-	-	-	(19,434)	(19,434)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(37)	(37)
Purchase of common shares under the terms of a normal course issuer bid	7	(9,986)	-	-	(9,986)	-	(9,986)
Balance at September 30, 2022		**386,055**	**1,997**	**(271,481)**	**116,571**	**43,890**	**160,461**
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	14.1	-	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**

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

MEDICAL FACILITIES CORPORATION

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note	**2022 $**	**2021 $**	**2022 $**	**2021 $**
Revenue and other income					
Facility service revenue		102,167	96,388	305,117	287,956
Government stimulus income	4	-	2,652	2,173	7,357
		102,167	**99,040**	**307,290**	**295,313**
Operating expenses					
Salaries and benefits		32,370	29,978	93,616	88,097
Drugs and supplies		35,053	31,057	102,885	92,711
General and administrative expenses		19,134	14,661	53,819	42,331
Depreciation of property and equipment		2,328	2,325	6,988	7,010
Depreciation of right-of-use assets		2,696	2,549	7,939	7,627
Amortization of other intangibles		161	1,915	477	5,681
		91,742	**82,485**	**265,724**	**243,457**
Income from operations		**10,425**	**16,555**	**41,566**	**51,856**
Finance costs					
Change in value of exchangeable interest liability		6,914	12,559	2,812	12,174
Interest expense on exchangeable interest liability		1,515	1,711	5,418	6,555
Interest expense, net of interest income	11	1,310	1,468	4,063	4,625
Impairment loss on loan receivable	12.1	9,394	-	13,384	-
Loss (gain) on foreign currency		(4)	(11)	9	(13)
		19,129	**15,727**	**25,686**	**23,341**
Share of equity loss (income) in associates	12.1	5	(5)	271	137
Income (loss) before income taxes		**(8,709)**	**833**	**15,609**	**28,378**
Income tax expense (recovery)	10	(3,213)	(2,594)	(23)	2,788
Net income (loss) and comprehensive income (loss) for the period		**(5,496)**	**3,427**	**15,632**	**25,590**
Attributable to:					
Owners of the Corporation		(10,453)	(3,545)	(2,131)	5,248
Non-controlling interest		4,957	6,972	17,763	20,342
		(5,496)	**3,427**	**15,632**	**25,590**
Earnings (loss) per share attributable to owners of the Corporation					
Basic	5	$ (0.35)	$ (0.11)	$ (0.07)	$ 0.17
Fully diluted	5	$ (0.35)	$ (0.11)	$ (0.07)	$ 0.17

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)

		Nine Months Ended September 30,	
		2022	**2021**
	Note	**$**	**$**
Cash flows from operating activities			
Net income for the period		15,632	25,590
Adjustments for:			
Depreciation of property and equipment		6,988	7,010
Depreciation of right-of-use assets		7,939	7,627
Amortization of other intangibles		477	5,681
Impairment loss on loan receivable	12.1	13,384	-
Share of equity loss in associates	12.1	271	137
Change in value of exchangeable interest liability		2,812	12,174
Loss (gain) on foreign currency		9	(13)
Income tax expense (recovery)	10	(23)	2,788
Share-based compensation	14.1	138	238
Interest expense, net of interest income		9,481	11,180
Other non-cash gain		(5)	(1,990)
		57,103	70,422
Net changes in non-cash operating working capital	8	(11,688)	(5,675)
		45,415	64,747
Interest paid, net of received		(7,450)	(8,939)
Income and withholding taxes received (paid)		1,450	(3,742)
Net cash provided by operating activities		**39,415**	**52,066**
Cash flows from investing activities			
Purchase of property and equipment		(3,136)	(6,325)
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	12.1	(255)	(105)
Redemption of non-controlling interest in MFC Nueterra ASCs		(37)	(162)
Net cash used in investing activities		**(3,092)**	**(6,592)**
Cash flows from financing activities			
Net repayments of revolving credit facilities and issuance of notes payable		(3,715)	(2,374)
Repayments of notes payable by the Facilities		(5,117)	(7,546)
Payment of lease liabilities		(9,132)	(9,007)
Loan receivable from an associate	12.1	150	-
Distributions to non-controlling interest		(19,434)	(24,511)
Dividends paid		(5,783)	(5,199)
Purchase of common shares under the terms of a normal course issuer bid	7	(9,986)	-
Net cash used in financing activities		**(53,017)**	**(48,637)**
Decrease in cash and cash equivalents		**(16,694)**	**(3,163)**
Effect of exchange rate fluctuations on cash balances held		(9)	13
Cash and cash equivalents, beginning of the period		61,044	66,182
Cash and cash equivalents, end of the period		**44,341**	**63,032**

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

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

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:

		Ownership Interest September 30,	
Subsidiary	**Location**	**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	45.0%	46.8%

(1) The Corporation has an average ownership interest of 45.0% 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 November 9, 2022.

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.

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, 2022, certain Facilities received $932 in total funding from the HHS (September 30, 2021: $3,311), and recognized $1,434 in revenue as government stimulus income (September 30, 2021: $5,837), which included an amount of $502 which was recorded as a liability under payor advances and government stimulus funds repayable 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 nine months ended September 30, 2022, the Facilities did not receive any funds under the PPP (September 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 and initiated a re-review of the loan forgiveness application. Loans received under the PPP of $1,479 by certain Facilities during the year ended December 31, 2021 were also awaiting forgiveness, but the applications were denied by the SBA during the three months ended September 30, 2022. These certain Facilities each filed an appeal against their respective denial. It remains to be seen if the SBA will reach further denial decisions for the other PPP loans under review. Any loans not forgiven will result in a reversal of income previously recorded and a recording of a liability. See note 16 for updates subsequent to September 30, 2022.

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

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 $22,248 has been recouped as at September 30, 2022 (December 31, 2021: $7,947). The remaining $909 is recorded as a liability under payor advances and government stimulus funds repayable as at September 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 nine months ended September 30, 2022, certain Facilities have had claims approved under the ERC and recorded government stimulus income of $608 (September 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 nine months ended September 30, 2021, certain Facilities qualified for the tax credits under the FFCRA and recorded government stimulus income of $59.

For the nine months ended September 30, 2022, the Facilities did not receive any other stimulus funds under state programs (September 30, 2021: $1,783), but recognized $131 in revenue as government stimulus income (September 30, 2021: $1,461), which was recorded as a liability under payor advances and government stimulus funds repayable 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 (loss) and comprehensive income (loss) consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022 $	2021 $	2022 $	2021 $
HHS	-	2,526	1,434	5,837
ERC	-	-	608	-
FFCRA	-	7	-	59
Other	-	119	131	1,461
Government stimulus income	**-**	**2,652**	**2,173**	**7,357**

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

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 (LOSS) PER SHARE

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

		Three Months Ended September 30,	
		2022	**2021**
Net loss for the period attributable to owners of the Corporation	$	(10,453)	(3,545)
Divided by weighted average number of common shares outstanding for the period		29,554,010	31,106,259
Basic loss per share	**$**	**(0.35)**	**(0.11)**

		Nine Months Ended September 30,	
		2022	**2021**
Net income (loss) for the period attributable to owners of the Corporation	$	(2,131)	5,248
Divided by weighted average number of common shares outstanding for the period		30,088,381	31,106,259
Basic earnings (loss) per share	**$**	**(0.07)**	**0.17**

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

5. 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,	
		2022	**2021**
Net loss for the period attributable to owners of the Corporation	$	(10,453)	(3,545)
Change in value of exchangeable interest liability (tax effected)		-	-
Interest expense on exchangeable interest liability		-	-
Modified net loss for the period attributable to owners of the Corporation	$	(10,453)	(3,545)
Weighted average number of common shares:			
Outstanding for the period		29,554,010	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)		29,554,010	31,106,259
Fully diluted loss per share	**$**	**(0.35)**	**(0.11)**

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

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

		Nine Months Ended September 30,	
		2022	**2021**
Net income (loss) for the period attributable to owners of the Corporation	$	(2,131)	5,248
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	$	(2,131)	5,248
Weighted average number of common shares:			
Outstanding for the period		30,088,381	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)		30,088,381	31,106,259
Fully diluted earnings (loss) per share	**$**	**(0.07)**	**0.17**

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

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

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

6. SUBSTANTIAL ISSUER BID

On September 13, 2022, the Corporation announced its intention to commence a substantial issuer bid ("SIB"), by way of a modified Dutch auction, to purchase, for cancellation, up to a maximum aggregate amount of C$34,500 of its common shares (the "Offer") at a purchase price of not less than C$10.00 per common share and not more than C$11.50 per common share. The Offer commenced on September 16, 2022, and expired on October 24, 2022 (note 16), upon which the purchase price determined by the Corporation, being C$11.30 per common share, enabled it to purchase the maximum number of its common shares up to the total maximum aggregate amount of C$34,500.

No common shares were repurchased and cancelled under the SIB for the nine months ended September 30, 2022.

7. NORMAL COURSE ISSUER BID

The Corporation has a normal course issuer bid ("NCIB") in effect from December 1, 2021 to November 30, 2022. Under the NCIB, 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 nine months ended September 30, 2022, the Corporation purchased 1,393,900 of its common shares for a total consideration of $9,986 from the open market. During the nine months ended September 30, 2021, the Corporation did not have an NCIB in effect and therefore did not purchase any of its common shares.

The purchases under the NCIB are recorded in share capital. All common shares acquired under the NCIB were cancelled. On September 13, 2022, the Corporation announced there would be no further purchases of its common shares under the NCIB until after the expiry of the SIB.

8. NET CHANGES IN NON-CASH WORKING CAPITAL

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

	Nine Months Ended September 30,	
	2022 **$**	**2021** **$**
Accounts receivable	4,252	2,621
Supply inventory	243	1,066
Prepaid expenses and other	(677)	(368)
Accounts payable	677	(4,586)
Accrued liabilities	(1,249)	1,430
Payor advances and government stimulus funds repayable	(14,934)	(5,838)
Net changes in non-cash working capital	**(11,688)**	**(5,675)**

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

9. FINANCIAL INSTRUMENTS

9.1 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, 2022 and December 31, 2021:

	September 30, 2022 $	December 31, 2021 $
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	44,341	61,044
Amortized cost		
Accounts receivable	57,192	61,444
Loan receivable	-	13,384
Financial liabilities		
Fair value through profit or loss		
Exchangeable interest liability	48,390	45,578
Amortized cost		
Dividends payable	1,711	1,961
Accounts payable	24,617	23,940
Accrued liabilities	23,690	24,939
Corporate credit facility	21,000	26,000
Long-term debt	49,738	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 September 30, 2022 and December 31, 2021. They do not include fair value information for financial instruments which are short-term in nature.

	September 30, 2022			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	44,341	-	-	44,341
Financial liabilities				
Exchangeable interest liability	-	48,390	-	48,390
Corporate credit facility	-	21,000	-	21,000
Long-term debt	-	49,738	-	49,738
Total	**44,341**	**119,128**	**-**	**163,469**

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

9. FINANCIAL INSTRUMENTS (Continued)

	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**

9.2 Measurement of fair values

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

Financial Instrument	Valuation Technique
Exchangeable interest liability	*Market comparison technique:* 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	*Market comparison technique:* Interest rates are based on the lending agreements with various banks of corporate credit facility, and they are prime, SOFR 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	*Market comparison technique:* 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	*Probability-weighted discounted cash flows:* 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.

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

10. INCOME TAXES

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

The Canadian income tax return for the Corporation is prepared on a stand-alone basis and includes non-consolidated balances attributable to the Canadian entity only.

Income taxes reported in these consolidated financial statements are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Provision for income taxes	**2022 $**	**2021 $**	**2022 $**	**2021 $**
Current	(322)	(197)	866	2,208
Deferred	(2,891)	(2,397)	(889)	580
Total income tax expense (recovery)	**(3,213)**	**(2,594)**	**(23)**	**2,788**

11. INTEREST EXPENSE, NET OF INTEREST INCOME

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022 $	**2021 $**	**2022 $**	**2021 $**
Interest expense at Facilities’ level	486	486	1,443	1,490
Interest expense at corporate level	130	125	344	443
Interest expense on lease liabilities	663	722	2,031	2,240
Amortization of deferred financing costs and stand-by fees	147	152	439	503
Interest income at Facilities’ level	(4)	(4)	(15)	(18)
Interest income at corporate level	(112)	(13)	(179)	(33)
Interest expense, net of interest income	**1,310**	**1,468**	**4,063**	**4,625**

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

12. RELATED PARTY TRANSACTIONS AND BALANCES

12.1 Equity accounted investments

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

		September 30, 2022		December 31, 2021	
Entity	**Accounting Method**	**Ownership Interest**	**Investment Balance $**	**Ownership Interest**	**Investment Balance $**
Mountain Plains Real Estate Holdings, LLC ("MPREH")[(1)]	Equity	54.2%	760	54.2%	776
BHSP[(2)]	Cost	-	-	0.4%	341
St. Luke's Surgery Center of Chesterfield, LLC ("St. Luke's")[(3)]	Equity	28.0%	-	27.1%	-
UMASH[(4)]	Equity	31.7%	-	31.7%	-
			760		**1,117**

(1) During the nine months ended September 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 nine months ended September 30, 2022, the Corporation invested an additional $255 in St. Luke's. The investment balance was written down to nil due to the Corporation's share of losses recognized.
(4) The Corporation had a loan receivable from UMASH of $13,384 as at December 31, 2021. During the three and nine months ended September 30, 2022, the Corporation recorded an impairment loss of $9,394 and $13,384 on the loan receivable from UMASH, respectively, based on the updated loan impairment expected credit loss model as at September 30, 2022.

12.2 Related party transactions

A member of the Corporation's Board of Directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the nine months ended September 30, 2022 of $3,376 (September 30, 2021: $3,376).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. For the nine months ended September 30, 2021, BHSH paid MPREH $135 for the use of a facility.

12.3 Other transactions

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

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

13. COMMITMENTS AND CONTINGENCIES

13.1 Commitments

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

13.2 Contingencies

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

14. SHARE-BASED COMPENSATION

14.1 Stock options

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

Optionee	Number of Options Held	Number of Options Vested	Exercise Price	Grant Date
Chief Executive Officer (1)	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**		

(1) *On October 21, 2022, the Corporation announced the appointment of an Interim Chief Executive Officer to replace the existing Chief Executive Officer, who stepped down and forfeited his 450,000 unvested options, and also has 30 days from this date until his 350,000 vested options expire.*

Outstanding options (the "Options") vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of September 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 nine months ended September 30, 2022, the Corporation recognized $138 (September 30, 2021: $238) relating to the Options in salaries and benefits expense.

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

14. SHARE-BASED COMPENSATION (Continued)

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

	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%

14.2 Deferred share units

Compensation for directors includes a deferred share unit ("DSU") component, for which grants based on the value of the Corporation's common shares are made quarterly. The DSUs accrue dividends, vest immediately and can be redeemed only when a participant ceases to serve as a director of the Corporation. The participant's entitlement in respect of the DSUs then held will be settled in cash based on a formula tied to the value of the Corporation's common shares at the relevant time. For the nine months ended September 30, 2022, director compensation included DSU grants of $617 (September 30, 2021: $341), while the change in market value of outstanding DSUs for the same period was an expense of $142 (September 30, 2021: $699).

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

	2022
Opening balance of DSUs at January 1, 2022	366,806
DSUs granted on director fees	80,008
DSUs granted on dividend reinvestment	8,350
DSUs paid out	(149,646)
Total number of DSUs at September 30, 2022	**305,518**

14. SHARE-BASED COMPENSATION (Continued)

14.3 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 nine months ended September 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.

14.4 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.

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, 2022, operating expenses included a PSU expense of $79 (September 30, 2021: $107). On March 29, 2022, all outstanding PSUs vested, after which they were paid out in the same quarter.

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

14. SHARE-BASED COMPENSATION (Continued)

14.4.1 Performance share units

The following table summarizes changes in the number of PSUs for the nine months ended September 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 September 30, 2022	**-**

14.4.2 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 nine months ended September 30, 2022, operating expenses included an SU expense of $1,657 (September 30, 2021: $1,318). As at September 30, 2022, the liability for SUs was $3,752 (December 31, 2021: $2,095).

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

	2022
Opening balance of SUs at January 1, 2022	559,004
SUs granted	150,348
SUs granted on dividend reinvestment	16,072
Total number of SUs at September 30, 2022	**725,424**

On October 31, 2022, in relation to the resignation of the Chief Executive Officer, 243,476 Executive DSUs were paid out and 162,394 were forfeited.

15. SIGNIFICANT ACCOUNTING POLICIES

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

15.1 New and revised IFRS not yet adopted

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

16. SUBSEQUENT EVENTS

On October 21, 2022, the Corporation announced the appointment of an Interim Chief Executive Officer to replace the existing Chief Executive Officer, who stepped down.

On October 24, 2022, the SIB (note 6) expired, with the Corporation taking up and paying for 3,053,097 of its common shares at a price of C$11.30 per common share, for an aggregate amount of C$34,500, or approximately 10.38% of the Corporation's issued and outstanding common shares as of the date the Offer was publicly announced. On October 31, 2022, the purchase and cancellation of common shares under the Offer was executed, after which the Corporation had 26,349,262 common shares issued and outstanding.

In relation to a PPP loan of $4,317 received during the year ended December 31, 2020 by a certain Facility, the forgiveness application was under re-review by the SBA as of September 30, 2022. On October 31, 2022, the Facility's legal counsel was informed by the SBA in an informal communication that it concluded its re-review and would be issuing a new denial decision within a few days. Although yet to be received, the Facility intends to appeal any new denial decision.

For PPP loans of $410 received during the year ended December 31, 2021 relating to certain Facilities, the forgiveness applications had been denied by the SBA as of September 30, 2022, and were under appeal. During the second week of November 2022, these certain Facilities were informed by their respective lenders via informal communications that the SBA had approved the forgiveness of their respective PPP loans, formal notifications of which would subsequently be issued.