Interim Condensed Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

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

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MEDICAL FACILITIES CORPORATION

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

	Note	June 30, 2023 $ (Unaudited)	December 31, 2022 $
ASSETS			
Current assets			
Cash and cash equivalents		27,949	34,926
Accounts receivable		57,623	64,040
Supply inventory		10,051	9,227
Prepaid expenses and other		7,863	10,549
Income tax receivable		1,822	587
Total current assets		**105,308**	**119,329**
Non-current assets			
Deferred income tax assets		43	20
Property and equipment		74,674	74,155
Right-of-use assets		45,697	50,564
Goodwill		120,623	120,623
Other intangibles		12,065	13,100
Total non-current assets		**253,102**	**258,462**
TOTAL ASSETS		**358,410**	**377,791**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		1,530	1,539
Accounts payable		25,728	26,402
Accrued liabilities		20,576	22,211
Obligation for purchase of common shares	7	2,678	4,420
Current portion of long-term debt		10,145	9,729
Current portion of lease liabilities		10,018	10,183
Government stimulus funds repayable	4	12,335	12,335
Total current liabilities		**83,010**	**86,819**
Non-current liabilities			
Long-term debt		37,349	39,864
Lease liabilities		42,737	47,178
Deferred income tax liability		16,568	15,884
Corporate credit facility		27,000	36,000
Exchangeable interest liability		38,066	37,354
Total non-current liabilities		**161,720**	**176,280**
Total liabilities		**244,730**	**263,099**
Equity			
Share capital	6	350,505	353,237
Contributed surplus		675	1,192
Deficit		(270,609)	(275,295)
Equity attributable to owners of the Corporation		**80,571**	**79,134**
Non-controlling interest		33,109	35,558
Total equity		**113,680**	**114,692**
TOTAL LIABILITIES AND EQUITY		**358,410**	**377,791**

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

MEDICAL FACILITIES CORPORATION

Interim Condensed Consolidated Statements of Changes in Equity
(In thousands of U.S. dollars)
(Unaudited)

		Attributable to Owners of the Corporation				Non-controlling Interest	Total Equity
	Note	**Share Capital $**	**Contributed Surplus $**	**Retained Earnings/ (Deficit) $**	**Total $**	**$**	**$**
2023							
Balance at January 1, 2023		353,237	1,192	(275,295)	79,134	35,558	114,692
Net income and comprehensive income for the period		-	-	7,735	7,735	11,160	18,895
Stock options income	14.1	-	(517)	-	(517)	-	(517)
Dividends to owners of the Corporation		-	-	(3,049)	(3,049)	-	(3,049)
Distributions to non-controlling interest		-	-	-	-	(13,601)	(13,601)
Redemption of non-controlling interest in MFC Nueterra ASCs		-	-	-	-	(8)	(8)
Purchase of common shares under a normal course issuer bid	6	(4,474)	-	-	(4,474)	-	(4,474)
Change in obligation for purchase of common shares	7	1,742	-	-	1,742	-	1,742
Balance at June 30, 2023		**350,505**	**675**	**(270,609)**	**80,571**	**33,109**	**113,680**
2022							
Balance at January 1, 2022, as adjusted[(1)]		389,510	1,859	(263,817)	127,552	45,598	173,150
Net income and comprehensive income for the period		-	-	8,322	8,322	12,806	21,128
Stock options expense	14.1	-	100		100	-	100
Dividends to owners of the Corporation		-	-	(3,822)	(3,822)	-	(3,822)
Distributions to non-controlling interest		-	-	-	-	(13,961)	(13,961)
Investment by non-controlling interest in MFC Nueterra ASCs		-	-	-	-	10	10
Purchase of common shares under a normal course issuer bid	6	(6,851)	-	-	(6,851)	-	(6,851)
Change in obligation for purchase of common shares[(2)]	7	2,960	-	-	2,960	-	2,960
Balance at June 30, 2022, as adjusted[(2)]		**385,619**	**1,959**	**(259,317)**	**128,261**	**44,453**	**172,714**

(1) Certain comparative figures have been adjusted, as described in note 20.24.1 of the audited consolidated financial statements for the year ended December 31, 2022.
(2) Certain comparative figures have been adjusted, as described in note 15.2 of these unaudited interim condensed consolidated financial statements.

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

MEDICAL FACILITIES CORPORATION

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

	Note	Three Months Ended June 30, 2023 $	Three Months Ended June 30, 2022 $	Six Months Ended June 30, 2023 $	Six Months Ended June 30, 2022 $
Revenue and other income					
Facility service revenue		109,488	102,162	218,738	202,950
Government stimulus income	4	-	363	-	2,173
		109,488	**102,525**	**218,738**	**205,123**
Operating expenses					
Salaries and benefits		32,680	31,347	66,202	61,246
Drugs and supplies		37,006	34,076	74,008	67,832
General and administrative expenses		18,577	15,559	38,158	34,685
Depreciation of property and equipment		2,428	2,315	4,875	4,660
Depreciation of right-of-use assets		2,727	2,608	5,403	5,243
Amortization of other intangibles		518	159	1,035	316
		93,936	**86,064**	**189,681**	**173,982**
Income from operations		**15,552**	**16,461**	**29,057**	**31,141**
Finance costs (income)					
Change in value of exchangeable interest liability		2,015	(14,405)	712	(4,102)
Interest expense on exchangeable interest liability		1,731	1,712	3,581	3,903
Interest expense, net of interest income	11	1,565	1,352	3,201	2,753
Impairment loss on loan receivable		-	-	-	3,990
Loss on foreign currency		10	3	14	13
		5,321	**(11,338)**	**7,508**	**6,557**
Share of equity loss in associates		-	272	-	266
Income before income taxes		**10,231**	**27,527**	**21,549**	**24,318**
Income tax expense	10	1,002	5,284	2,654	3,190
Net income and comprehensive income for the period		**9,229**	**22,243**	**18,895**	**21,128**
Attributable to:					
Owners of the Corporation		3,324	16,183	7,735	8,322
Non-controlling interest		5,905	6,060	11,160	12,806
		9,229	**22,243**	**18,895**	**21,128**
Earnings per share attributable to owners of the Corporation					
Basic	5	$ 0.13	$ 0.54	$ 0.30	$ 0.27
Fully diluted	5	$ 0.13	$ 0.19	$ 0.30	$ 0.25

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

MEDICAL FACILITIES CORPORATION

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

	Note	Six Months Ended June 30, 2023 $	2022 $
Cash flows from operating activities			
Net income for the period		18,895	21,128
Adjustments for:			
Depreciation of property and equipment		4,875	4,660
Depreciation of right-of-use assets		5,403	5,243
Amortization of other intangibles		1,035	316
Impairment loss on loan receivable		-	3,990
Share of equity loss in associates		-	266
Change in value of exchangeable interest liability		712	(4,102)
Loss on foreign currency		14	13
Income tax expense	10	2,654	3,190
Stock options expense (income)	14.1	(517)	100
Interest expense, net of interest income		6,782	6,656
Other non-cash gain		-	(5)
		39,853	41,455
Net changes in non-cash operating working capital	8	5,970	(12,407)
		45,823	29,048
Interest paid, net of received		(5,479)	(5,289)
Income and withholding taxes received (paid)		(3,228)	2,099
Net cash provided by operating activities		**37,116**	**25,858**
Cash flows from investing activities			
Purchase of property and equipment		(5,394)	(1,610)
Investment by (redemption of) non-controlling interest in MFC Nueterra ASCs		(8)	10
Proceeds from sale of non-controlling interest in Black Hills Surgical Physicians, LLC		-	336
Investment in St. Luke’s Surgery Center of Chesterfield, LLC		-	(256)
Net cash used in investing activities		**(5,402)**	**(1,520)**
Cash flows from financing activities			
Net repayments of revolving credit facilities and issuance of notes payable		(7,536)	(3,520)
Repayments of notes payable by the Facilities		(3,563)	(3,442)
Payment of lease liabilities		(6,445)	(6,131)
Loan receivable from an associate		-	150
Distributions to non-controlling interest		(13,601)	(13,961)
Dividends paid		(3,058)	(3,918)
Purchase of common shares under normal course issuer bids	6	(4,474)	(6,851)
Net cash used in financing activities		**(38,677)**	**(37,673)**
Decrease in cash and cash equivalents		**(6,963)**	**(13,335)**
Effect of exchange rate fluctuations on cash balances held		(14)	(13)
Cash and cash equivalents, beginning of the period		34,926	61,044
Cash and cash equivalents, end of the period		**27,949**	**47,696**

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 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 four ambulatory surgery centers (the "ASCs") (collectively the "Facilities").

On May 5, 2023, clinical operations were permanently closed at Eastwind Surgical, LLC, an ASC located in Westerville, Ohio.

On June 30, 2023, clinical operations were permanently closed at Riverview Ambulatory Surgical Center, LLC, an ASC located in Kingston, Pennsylvania.

Both of the above ASCs are indirectly owned by the Corporation through the MFC Nueterra Partnership. Post closure of their clinical operations, these ASCs are expected to be wound-up. As part of this process, their assets will be liquidated, with net proceeds remaining after payment of liabilities, if any, to be distributed among their respective owners. No gains or losses were recorded during the quarter in connection with these developments.

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

		Ownership Interest June 30,	
Subsidiary	**Location**	**2023**	**2022**
Arkansas Surgical Hospital, LLC ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	64.0%	64.0%
Black Hills Surgical Hospital, LLP ("BHSH")	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP ("SFSH")	Sioux Falls, South Dakota	51.0%	51.0%
The Surgery Center of Newport Coast ("SCNC")	Newport Beach, California	51.0%	51.0%
MFC Nueterra ASCs(1)(2)	Various	46.2%	45.5%

(1) The Corporation has an average ownership interest of 46.2% in three ASCs as of June 30, 2023. The three ASCs are situated in Michigan, Missouri, and Nebraska.

(2) On July 1, 2023, the Corporation sold all of its 30.3% controlling ownership interest in City Place Surgery Center, an ASC located in St. Louis, Missouri. On July 31, 2023, the Corporation sold all of its 58.7% controlling ownership interest in Miracle Hills Surgery Center, LLC, an ASC located in Omaha, Nebraska. See note 16 for details.

2. STATEMENT OF COMPLIANCE

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

These consolidated financial statements were approved for issue by the Corporation's Board of Directors on August 9, 2023.

3. BASIS OF PREPARATION

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

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

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

4. GOVERNMENT STIMULUS INCOME

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

4. GOVERNMENT STIMULUS INCOME (Continued)

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

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

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

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

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

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

4. GOVERNMENT STIMULUS INCOME (Continued)

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023 $	2022 $	2023 $	2022 $
HHS	-	-	-	1,434
ERC	-	363	-	608
Other	-	-	-	131
Government stimulus income	**-**	**363**	**-**	**2,173**

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

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

5. EARNINGS PER SHARE

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

		Three Months Ended June 30, 2023	Three Months Ended June 30, 2022
Net income for the period attributable to owners of the Corporation	$	3,324	16,183
Divided by weighted average number of common shares outstanding for the period		25,345,146	30,196,779
Basic earnings per share	**$**	**0.13**	**0.54**

		Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Net income for the period attributable to owners of the Corporation	$	7,735	8,322
Divided by weighted average number of common shares outstanding for the period		25,522,635	30,359,995
Basic earnings per share	**$**	**0.30**	**0.27**

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

		Three Months Ended June 30, 2023	Three Months Ended June 30, 2022
Net income for the period attributable to owners of the Corporation	$	3,324	16,183
Change in value of exchangeable interest liability (tax effected)		-	(10,948)
Interest expense on exchangeable interest liability		-	1,712
Modified net income for the period attributable to owners of the Corporation	$	3,324	6,947
Weighted average number of common shares:			
Outstanding for the period		25,345,146	30,196,779
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		-	6,141,507
Deemed to be issued as stock options		-	36,839
Weighted average number of common shares [(1)]		25,345,146	36,375,125
Fully diluted earnings per share	**$**	**0.13**	**0.19**

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

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

5. EARNINGS PER SHARE (Continued)

		Six Months Ended June 30,	
		2023	2022
Net income for the period attributable to owners of the Corporation	$	7,735	8,322
Change in value of exchangeable interest liability (tax effected)		-	(3,118)
Interest expense on exchangeable interest liability		-	3,903
Modified net income for the period attributable to owners of the Corporation	$	7,735	9,107
Weighted average number of common shares:			
Outstanding for the period		25,522,635	30,359,995
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		-	6,135,230
Deemed to be issued as stock options		-	-
Weighted average number of common shares [(1)(2)]		25,522,635	36,495,225
Fully diluted earnings per share	**$**	**0.30**	**0.25**

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

(2) *For the six months ended June 30, 2022, the impact of stock options was excluded from the dilutive weighted average number of common shares calculation because it was not applicable based on the share price prevailing at June 30, 2022.*

6. NORMAL COURSE ISSUER BID

The Corporation has a normal course issuer bid for up to 2,615,186 of its common shares in effect from December 1, 2022 to November 30, 2023. During the six months ended June 30, 2023, the Corporation purchased 734,000 of its common shares for a total consideration of $4,474 from the open market under this normal course issuer bid. During the six months ended June 30, 2022, the Corporation purchased 967,100 of its common shares for a total consideration of $6,851 from the open market under a previous normal course issuer bid.

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

7. OBLIGATION FOR PURCHASE OF COMMON SHARES

The Corporation entered into an automatic share purchase plan with a broker that allows the purchase of common shares for cancellation under the normal course issuer bid, in accordance with certain prearranged trading parameters, at any time during predetermined trading blackout periods. An obligation for purchase of common shares of $2,678 was recognized under the automatic share purchase plan as of June 30, 2023 (December 31, 2022: $4,420). Subsequent to the period end, the Corporation purchased 148,600 of its common shares for a total consideration of $941 under the automatic share purchase plan, through August 4, 2023.

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

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:

	Six Months Ended June 30,	
	2023	**2022**
	$	**$**
Accounts receivable	6,417	588
Supply inventory	(824)	231
Prepaid expenses and other	2,686	825
Accounts payable	(674)	(1,712)
Accrued liabilities	(1,635)	(2,811)
Government stimulus funds repayable	-	(9,528)
Net changes in non-cash working capital	**5,970**	**(12,407)**

9. FINANCIAL INSTRUMENTS

9.1 Fair values and classification of financial instruments

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

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

	June 30, 2023	**December 31, 2022**
	$	**$**
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	27,949	34,926
Amortized cost		
Accounts receivable	57,623	64,040
Financial liabilities		
Fair value through profit or loss		
Exchangeable interest liability	38,066	37,354
Amortized cost		
Dividends payable	1,530	1,539
Accounts payable	25,728	26,402
Accrued liabilities	20,576	22,211
Obligation for purchase of common shares	2,678	4,420
Corporate credit facility	27,000	36,000
Long-term debt	47,494	49,593

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

9. FINANCIAL INSTRUMENTS (Continued)

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

	June 30, 2023			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets				
Cash and cash equivalents	27,949	-	-	27,949
Financial liabilities				
Exchangeable interest liability	-	38,066	-	38,066
Corporate credit facility	-	27,000	-	27,000
Long-term debt	-	47,494	-	47,494
Total	**27,949**	**112,560**	**-**	**140,509**

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

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, Secured Overnight Financing Rate ("SOFR") or London Inter-Bank Offered Rate ("LIBOR") rates adjusted for the Corporation's risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals.
Long-term debt	*Market comparison technique:* Interest rates are based on the lending agreements with various banks and creditors of long-term debt, and they are Prime, Bloomberg Short-Term Bank Yield ("BSBY"), SOFR or LIBOR rates adjusted for the Facilities' risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals and interest payments discounted to present value.

(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 June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Provision for income taxes	**$**	**$**	**$**	**$**
Current	1,038	726	1,993	1,188
Deferred	(36)	4,558	661	2,002
Total income tax expense	**1,002**	**5,284**	**2,654**	**3,190**

11. INTEREST EXPENSE, NET OF INTEREST INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Interest expense at the Facilities' level	487	478	981	957
Interest expense at the corporate level	532	111	1,076	214
Interest expense on lease liabilities	649	673	1,303	1,368
Corporate credit facility stand-by fees	101	144	201	292
Interest income at the Facilities' level	(62)	(6)	(93)	(11)
Interest income at the corporate level	(142)	(48)	(267)	(67)
Interest expense, net of interest income	**1,565**	**1,352**	**3,201**	**2,753**

12. RELATED PARTY TRANSACTIONS AND BALANCES

12.1 Equity accounted investment

As of June 30, 2023, the Corporation has a 28.0% non-controlling ownership interest in St. Luke's Surgery Center of Chesterfield, LLC ("St. Luke's ASC"), which is accounted using the equity method. The investment balance was written down to nil due to the Corporation's share of losses recognized in prior periods.

On July 1, 2023, the Corporation sold all of its 28.0% non-controlling ownership interest in St. Luke's ASC. See note 16 for details.

12. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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 six months ended June 30, 2023 of $2,251 (June 30, 2022: $2,251).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Prior to the July 1, 2023 sale of St. Luke's ASC, MFC Nueterra provided management services to St. Luke's ASC, for which it charged $169 for the six months ended June 30, 2023 (June 30, 2022: $157).

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 one such individual performs the duties of Medical Director at their respective Facility and is compensated in recognition of their contribution to the Facility. Also, a physician with a non-controlling interest in SFSH is its Chief Executive Officer and the Chief Medical Officer of the Corporation.

13. COMMITMENTS AND CONTINGENCIES

13.1 Commitments

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

13.2 Contingencies

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

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

14. SHARE-BASED COMPENSATION

14.1 Stock options

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

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

Outstanding options (the “Options”) vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of June 30, 2023, 444,906 of the Options relating to the Former Chief Executive Officer and the Former Chief Financial Officer are vested. During the six months ended June 30, 2023, 350,000 Options relating to the Former Chief Development Officer were forfeited.

During the six months ended June 30, 2023, the Corporation recognized income of $517 relating to the Options (June 30, 2022: expense of $100) in salaries and benefits expense due to recoveries from forfeited shares.

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

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

14.2 Deferred share units

Compensation for directors includes a deferred share unit (“DSU”) component, for which grants based on the value of the Corporation’s common shares are made quarterly. The DSUs accrue dividends, vest immediately and can be redeemed only when a participant ceases to serve as a director of the Corporation. The participant’s entitlement in respect of the DSUs then held will be settled in cash based on a formula tied to the value of the Corporation’s common shares at the relevant time. For the six months ended June 30, 2023, director compensation included DSU grants of $310 (June 30, 2022: $415), while the change in market value of outstanding DSUs for the same period was an expense of $73 (June 30, 2022: $223).

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

14. SHARE-BASED COMPENSATION (Continued)

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

	2023
Opening balance of DSUs at January 1, 2023	243,770
DSUs granted on director fees	51,710
DSUs granted on dividend reinvestment	5,173
Total number of DSUs at June 30, 2023	**300,653**

14.3 Performance share unit plan

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

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

14.3.1 Performance share units

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

14.3.2 Share units

To date, SU grants were made on March 31, 2020 for 346,638 Executive DSUs, on March 31, 2021 for 175,898 Executive DSUs, on March 31, 2022 for 150,348 Executive DSUs, and on March 31, 2023 for 78,978 Executive DSUs. The value of the expense and liability associated with the SUs is determined based on the Corporation's share price at the end of each reporting period. For the six months ended June 30, 2023, operating expenses included an SU expense of $96 (June 30, 2022: $601). As of June 30, 2023, the liability for SUs was $718 (December 31, 2022: $1,204).

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

14. SHARE-BASED COMPENSATION (Continued)

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

	2023
Opening balance of SUs at January 1, 2023	261,134
SUs granted	78,978
SUs granted on dividend reinvestment	6,053
SUs vested and settled	(96,760)
SUs forfeited	(51,534)
Total number of SUs at June 30, 2023	**197,871**

15. SIGNIFICANT ACCOUNTING POLICIES

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

15.1 New and revised IFRS not yet adopted

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

15.2 Prior year adjustment

An obligation for purchase of common shares of up to $3,571 existed as of June 30, 2022, under a previous automatic share purchase plan, which had not been recorded in the interim condensed consolidated financial statements for the three and six months ended June 30, 2022. Certain prior year figures in the interim condensed consolidated statement of changes in equity have been adjusted to record this. This adjustment had no impact on the interim condensed consolidated statement of income and comprehensive income, and the interim condensed consolidated statement of cash flows.

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

15. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The impact of this adjustment on the interim condensed consolidated financial statements for the three and six months ended June 30, 2022 is summarized below:

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to Owners of the Corporation				Non-controlling Interest	Total Equity
	Share Capital $	Contributed Surplus $	Retained Earnings/ (Deficit) $	Total $	$	$
2022						
Balance at June 30, 2022, as previously reported	389,190	1,959	(259,317)	131,832	44,453	176,285
Obligation for purchase of common shares	(3,571)	-	-	(3,571)	-	(3,571)
Balance at June 30, 2022, as adjusted	**385,619**	**1,959**	**(259,317)**	**128,261**	**44,453**	**172,714**

Interim Condensed Consolidated Balance Sheet

The adjustment resulted in an increase in obligation for purchase of common shares, and a decrease in share capital, of $3,571.

The Corporation purchased 283,400 of its common shares for a total consideration of $2,046 from July 1, 2022 through the end of the blackout period on August 11, 2022.

16. SUBSEQUENT EVENTS

On July 1, 2023, the Corporation sold all of its 30.3% controlling ownership interest in City Place Surgery Center, together with its 28.0% non-controlling ownership interest in St. Luke’s ASC, for combined net proceeds of $1,365. The buyer also assumed St. Luke’s ASC’s debt of $4,978 and released the Corporation from its pro-rata guarantee.

On July 31, 2023, the Corporation sold all of its 58.7% controlling ownership interest in Miracle Hills Surgery Center, LLC for net proceeds of $965.

As of the dates of the above transactions, the Corporation will no longer consolidate the financial results of these ASCs. No gains or losses were recorded during the quarter in connection with these subsequent developments. Following these subsequent sales, all but one of the ASCs indirectly owned by the Corporation through the MFC Nueterra Partnership have either been sold or are in the process of being wound-up.