

Interim Condensed Consolidated Financial Statements of

**MEDICAL FACILITIES  
CORPORATION**

For the three and nine months ended September 30, 2018  
(Unaudited)  
(In U.S. dollars)

## TABLE OF CONTENTS

### FINANCIAL STATEMENTS

	Page
Interim Condensed Consolidated Balance Sheets.....	3
Interim Condensed Consolidated Statements of Changes in Equity .....	4
Interim Condensed Consolidated Statements of Income and Comprehensive Income.....	5
Interim Condensed Consolidated Statements of Cash Flows .....	6

### NOTES TO THE FINANCIAL STATEMENTS

	Page
1. Reporting entity .....	7
2. Statement of compliance .....	7
3. Basis of preparation.....	8
4. Acquisition of MFC Nueterra ASCs .....	8
5. Earnings (Loss) per share .....	9
6. Normal course issuer bids .....	10
7. Net changes in non-cash working capital.....	11
8. Financial instruments.....	11
9. Income taxes .....	13
10. Interest expense, net of interest income .....	14
11. Related party transactions and balances .....	14
12. Commitments and contingencies .....	15
13. Share-based compensation .....	16
14. Significant accounting policies .....	18

# MEDICAL FACILITIES CORPORATION

Interim Condensed Consolidated Balance Sheets

(In thousands of U.S. dollars)

(Unaudited)

	Note	September 30, 2018 \$	December 31, 2017 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		33,572	56,029
Short-term investments		10,803	8,934
Accounts receivable		59,538	63,476
Supply inventory		8,271	6,772
Prepaid expenses and other		7,861	6,429
Income tax receivable		558	1,881
<b>Total current assets</b>		<b>120,603</b>	<b>143,521</b>
<b>Non-current assets</b>			
Deferred income tax assets		3,393	7,993
Property and equipment		104,425	95,072
Goodwill		163,263	125,181
Other intangibles		76,291	86,193
Other assets	11.1	1,669	1,628
<b>Total non-current assets</b>		<b>349,041</b>	<b>316,067</b>
<b>TOTAL ASSETS</b>		<b>469,644</b>	<b>459,588</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Interest payable		474	-
Dividends payable		2,250	2,327
Accounts payable		21,603	23,669
Accrued liabilities		23,118	18,603
Current portion of corporate credit facility		-	47,750
Current portion of long-term debt		21,535	17,326
<b>Total current liabilities</b>		<b>68,980</b>	<b>109,675</b>
<b>Non-current liabilities</b>			
Long-term debt		46,670	47,732
Deferred income tax liability		612	1,013
Corporate credit facility		68,826	-
Convertible debentures		32,606	33,533
Exchangeable interest liability	8.1	65,553	67,107
<b>Total non-current liabilities</b>		<b>214,267</b>	<b>149,385</b>
<b>Total liabilities</b>		<b>283,247</b>	<b>259,060</b>
<b>Equity</b>			
Share capital	6	397,639	396,428
Contributed surplus		840	522
Deficit		(262,915)	(255,284)
<b>Equity attributable to owners of the Corporation</b>		<b>135,564</b>	<b>141,666</b>
<b>Non-controlling interest</b>		<b>50,833</b>	<b>58,862</b>
<b>Total equity</b>		<b>186,397</b>	<b>200,528</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>469,644</b>	<b>459,588</b>

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
	Share Capital	Contributed Surplus	Retained Earnings/ (Deficit)	Total		
	\$	\$	\$	\$	\$	\$
<b>2018</b>						
Balance at January 1, 2018	396,428	522	(255,284)	141,666	58,862	200,528
Net income and comprehensive income for the period	-	-	12,663	12,663	18,923	31,586
Share-based compensation	13	318	-	318	-	318
Dividends to owners of the Corporation	-	-	(20,294)	(20,294)	-	(20,294)
Distributions to non-controlling interest	-	-	-	-	(27,202)	(27,202)
Acquisition of MFC Nueterra ASCs	4	-	-	-	2,888	2,888
Acquisition of additional interest in Oklahoma Spine Hospital, LLC	1,211	-	-	1,211	-	1,211
Acquisition of additional interest in Unity Medical and Surgical Hospital	-	-	-	-	(2,638)	(2,638)
<b>Balance at September 30, 2018</b>	<b>397,639</b>	<b>840</b>	<b>(262,915)</b>	<b>135,564</b>	<b>50,833</b>	<b>186,397</b>
<b>2017</b>						
Balance at January 1, 2017	397,522	181	(248,994)	148,709	65,403	214,112
Net income and comprehensive income for the period	-	-	10,092	10,092	18,936	29,028
Dividends to owners of the Corporation	-	-	(20,118)	(20,118)	-	(20,118)
Distributions to non-controlling interest	-	-	-	-	(24,904)	(24,904)
Share-based compensation	13	268	-	268	-	268
Purchase of common shares under normal course issuer bid	6	(1,094)	-	(1,094)	-	(1,094)
<b>Balance at September 30, 2017</b>	<b>396,428</b>	<b>449</b>	<b>(259,020)</b>	<b>137,857</b>	<b>59,435</b>	<b>197,292</b>

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,	
		2018 \$	2017 \$	2018 \$	2017 \$
<b>Facility service revenue</b>		<b>104,207</b>	<b>88,974</b>	<b>308,319</b>	<b>274,063</b>
<b>Operating expenses</b>					
Salaries and benefits		30,060	26,418	88,577	78,776
Drugs and supplies		32,660	26,942	94,359	82,373
General and administrative expenses		18,839	16,266	58,757	50,346
Depreciation of property and equipment		2,780	2,816	8,221	8,490
Amortization of other intangibles		3,349	4,100	9,902	12,133
		<b>87,688</b>	<b>76,542</b>	<b>259,816</b>	<b>232,118</b>
<b>Income from operations</b>		<b>16,519</b>	<b>12,432</b>	<b>48,503</b>	<b>41,945</b>
<b>Finance costs</b>					
Change in value of convertible debentures		428	1,307	(926)	2,015
Change in value of exchangeable interest liability		2,316	8,017	(344)	(3,684)
Interest expense on exchangeable interest liability		1,922	2,121	6,580	6,724
Interest expense, net of interest income	10	1,841	1,612	4,680	4,680
Loss (gain) on foreign currency		(210)	(393)	212	(828)
		<b>6,297</b>	<b>12,664</b>	<b>10,202</b>	<b>8,907</b>
<b>Income (loss) before income taxes</b>		<b>10,222</b>	<b>(232)</b>	<b>38,301</b>	<b>33,038</b>
Income tax expense (recovery)	9	2,215	(2,397)	6,715	4,010
<b>Net income and comprehensive income for the period</b>		<b>8,007</b>	<b>2,165</b>	<b>31,586</b>	<b>29,028</b>
<b>Attributable to:</b>					
Owners of the Corporation		2,135	(3,560)	12,663	10,092
Non-controlling interest		5,872	5,725	18,923	18,936
		<b>8,007</b>	<b>2,165</b>	<b>31,586</b>	<b>29,028</b>
<b>Earnings (loss) per share</b>					
Basic	5	\$ 0.07	\$ (0.11)	\$ 0.41	\$ 0.33
Fully diluted	5	\$ 0.07	\$ (0.11)	\$ 0.39	\$ 0.33

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,	
		2018 \$	2017 \$
<b>Cash flows from operating activities</b>			
Net income for the period		31,586	29,028
Adjustments for:			
Depreciation of property and equipment		8,221	8,490
Amortization of other intangibles		9,902	12,133
Share of equity income in associates	11.1	(104)	(86)
Change in value of convertible debentures		(926)	2,015
Change in value of exchangeable interest liability		(344)	(3,684)
Loss (gain) on foreign currency		212	(828)
Income tax expense	9	6,715	4,010
Share-based compensation	13	318	268
Loss on disposal of assets of Integrated Medical Delivery, LLC	1	530	-
Interest expense, net of interest income		11,260	11,404
		67,370	62,750
Changes in non-cash operating working capital	7	6,542	8,171
		73,912	70,921
Interest paid, net of received		(10,785)	(10,911)
Income and withholding taxes paid		(1,193)	(605)
<b>Net cash provided by operating activities</b>		<b>61,934</b>	<b>59,405</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(16,063)	(8,185)
Investment in RRI Mishawaka Hospital, LP		-	(245)
Investment in Unity Medical and Surgical Hospital		(2,638)	-
Business combinations (net of cash assumed)	4	(42,760)	-
Proceeds from disposal of assets of Integrated Medical Delivery, LLC	1	3,100	-
Redemption of short-term and long-term bank investments		(1,869)	(853)
<b>Net cash used in investing activities</b>		<b>(60,230)</b>	<b>(9,283)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from revolving credit facilities and issuance of notes payable		28,555	(1,031)
Repayments of notes payable at the Facilities and Integrated Medical Delivery, LLC		(4,994)	(9,360)
Distributions, return of capital and loan receivable from an associate		63	33
Distributions to non-controlling interest		(27,202)	(24,904)
Dividends paid		(20,371)	(19,958)
Purchase of common shares under the terms of normal course issuer bid		-	(1,094)
<b>Net cash used in financing activities</b>		<b>(23,949)</b>	<b>(56,314)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(22,245)</b>	<b>(6,192)</b>
Effect of exchange rate fluctuations on cash balances held		(212)	828
Cash and cash equivalents, beginning of the period		56,029	57,451
<b>Cash and cash equivalents, end of the period</b>		<b>33,572</b>	<b>52,087</b>
Non-cash transactions:			
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		1,211	-

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, 2018

(Unaudited)

## 1. REPORTING ENTITY

Medical Facilities Corporation (the “Corporation”) is a British Columbia corporation. The address of the Corporation’s head office is 45 St. Clair Avenue West, Suite 200, 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 and non-controlling interests in five specialty hospitals and eight ambulatory surgery centers (the “Facilities”). The Corporation also owns a 92% controlling interest in RRI Mishawaka Hospital, LP, an entity which owns the land and building for one of its facilities.

On January 12, 2018, the Corporation, through its indirect subsidiary, formed a partnership, MFC Nueterra Holding Company, LLC (“MFC Nueterra Partnership”) with Nueterra MF Holdings, LLC, and agreed to cause MFC Nueterra Partnership to acquire an ownership interest in seven ambulatory surgery centers (“MFC Nueterra ASCs”). On February 1, 2018, MFC Nueterra Partnership completed the acquisition (note 4).

On June 1, 2018, Integrated Medical Delivery, L.L.C. (“IMD”), the Corporation’s 51% indirectly-owned subsidiary, completed the sale of its assets. The Corporation recorded a pre-tax loss of \$530 on proceeds of sale of \$3,100. The Corporation has maintained its 51% indirect ownership interest in IMD.

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

Subsidiary	Location	Ownership Interest	
		September 30,	
		2018	2017
Arkansas Surgical Hospital, LLC (“ASH”)	North Little Rock, Arkansas	51.0%	51.0%
Unity Medical and Surgical Hospital (“UMASH”)	Mishawaka, Indiana	73.9%	62.0%
Oklahoma Spine Hospital, LLC (“OSH”)	Oklahoma City, Oklahoma	62.8%	60.3%
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%
MFC Nueterra ASCs <sup>(1)</sup>	Various	52.6%	-

<sup>(1)</sup> The Corporation has an average ownership interest of 52.6% based on values as at the acquisition date. The seven ambulatory surgery centers are situated in Arkansas, Michigan, Missouri, Nebraska, Ohio, Oregon 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 (“IASB”) using the accounting policies as described in the audited consolidated financial statements for the year ended December 31, 2017 and presented in note 14 to these 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, 2018  
(Unaudited)

---

## 2. STATEMENT OF COMPLIANCE (Continued)

These consolidated financial statements were approved for issue by the Corporation's Board of Directors on November 7, 2018.

## 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 audited consolidated financial statements for the year ended December 31, 2017, 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. ACQUISITION OF MFC NUETERRA ASCS

On January 12, 2018, the Corporation, through its indirect subsidiary, entered into an agreement with Nueterra MF Holdings, LLC to form a partnership, MFC Nueterra Partnership, in which the Corporation holds a 94.25% indirect interest. On February 1, 2018, MFC Nueterra Partnership completed an acquisition of interests between approximately 42% to 59%, representing indirect interests of approximately 40% to 56% for the Corporation in seven ambulatory surgical centers, the MFC Nueterra ASCs, situated in Arkansas, Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania. The physicians at the MFC Nueterra ASCs specialize in orthopedics, neurosurgery, ophthalmology, and pain management, along with sub-specialties in otolaryngology, gastroenterology, cosmetic surgery, general surgery and podiatry. Combined, the MFC Nueterra ASCs have 18 operating rooms and eight procedure rooms.

The total purchase price paid by MFC Nueterra Partnership was \$46,500. The Corporation's portion of the purchase price of \$43,850 was funded by cash on hand and a draw on its credit facility. Based on the operating agreements of the MFC Nueterra ASCs, the Corporation has indirect controlling interests in each of the seven ASCs, and has accounted for the transaction as a business combination with the Corporation consolidating 100% of the MFC Nueterra ASC operations as at the acquisition date. The assets and liabilities of the MFC Nueterra ASCs are included in the 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, 2018  
(Unaudited)

## 4. ACQUISITION OF MFC NUETERRA ASCS (Continued)

The preliminary purchase price allocation as at September 30, 2018 is as follows:

	\$
Cash	1,090
Accounts receivable	4,938
Supply inventory	997
Prepaid expenses and other	479
Property and equipment	1,802
Goodwill	40,764
Accounts payable	(1,257)
Accrued liabilities and other liabilities	(1,412)
Long-term debt	(663)
Non-controlling interest	(2,888)
<b>Fair value of net assets acquired</b>	<b>43,850</b>

The Corporation has elected to recognize goodwill only as it relates to the controlling interest that has been acquired. Identification of intangible assets is in progress for the completion of the preliminary purchase price allocation.

The goodwill attributable to this acquisition includes the value of the workforce acquired, the benefit of future revenue growth, opportunities to expand within the marketplace and other key competitive advantages. The accounts receivable primarily represent facility service revenue receivable relating to the provision of operating facilities and services to patients.

Approximately \$400 of acquisition-related costs have been recognized as an expense in the Interim Condensed Consolidated Statements of Income and Comprehensive Income. Had the acquisition of the MFC Nueterra ASCs occurred as of January 1, 2018, the Interim Condensed Consolidated Statements of Income and Comprehensive Income for the nine months ended September 30, 2018, would have included facility service revenue of \$26,943 and income from operations of \$3,978, inclusive of pre-acquisition facility service revenue of \$2,741 and income from operations of \$208.

## 5. EARNINGS (LOSS) PER SHARE

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

	<b>Three Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Net income (loss) for the period attributable to owners of the Corporation	\$ 2,135	(3,560)
Divided by weighted average number of common shares outstanding for the period	31,004,165	30,974,315
<b>Basic earnings (loss) per share attributable to owners of the Corporation</b>	<b>\$ 0.07</b>	<b>(0.11)</b>

  

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Net income for the period attributable to owners of the Corporation	\$ 12,663	10,092
Divided by weighted average number of common shares outstanding for the period	30,978,971	31,045,945
<b>Basic earnings per share attributable to owners of the Corporation</b>	<b>\$ 0.41</b>	<b>0.33</b>

# 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, 2018

(Unaudited)

## 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,	
	2018	2017
Net income (loss) for the period attributable to owners of the Corporation	\$ 2,135	(3,560)
Weighted average number of common shares <sup>(1)</sup>	31,004,165	30,974,315
<b>Fully diluted earnings (loss) per share</b>	<b>\$ 0.07</b>	<b>(0.11)</b>

<sup>(1)</sup> For the periods ended September 30, 2018 and September 30, 2017, the impacts of convertible debentures, exchangeable interest liability, and share-based compensation were excluded from the dilutive weighted average number of ordinary shares calculation because they are not applicable based on the share price prevailing at September 30, 2018 and September 30, 2017.

	Nine Months Ended September 30,	
	2018	2017
Net income for the period attributable to owners of the Corporation	\$ 12,663	10,092
Change in value of convertible debentures (tax effected)	(681)	-
Interest expense on convertible debentures (tax effected)	1,049	-
Modified net income for the period attributable to owners of the Corporation	\$ 13,031	10,092
Weighted average number of common shares:		
Outstanding for the period	30,978,971	31,020,707
Deemed to be issued on the conversion of the outstanding convertible debentures	2,184,353	-
Deemed to be issued as share-based compensation	-	2,354
Weighted average number of common shares <sup>(2)(3)</sup>	33,163,324	31,023,061
<b>Fully diluted earnings per share</b>	<b>\$ 0.39</b>	<b>0.33</b>

<sup>(2)</sup> For the period ended September 30, 2018, the impacts of exchangeable interest liability and share-based compensation were excluded from the dilutive weighted average number of ordinary shares calculation because they are not applicable based on the share price prevailing at September 30, 2018.

<sup>(3)</sup> For the period ended September 30, 2017, the impacts of convertible debentures and exchangeable interest liability were excluded from the dilutive weighted average number of ordinary shares calculation because they are not applicable based on the share price prevailing at September 30, 2017.

## 6. NORMAL COURSE ISSUER BIDS

The Corporation's current normal course issuer bid for up to 620,918 of its common shares, is in effect from May 16, 2018 to May 15, 2019. During the nine months ended September 30, 2018, the Corporation did not purchase any of its common shares. During the nine months ended September 30, 2017, the Corporation purchased 95,600 of its common shares for \$1,094, under a previous normal course issuer bid.

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

# MEDICAL FACILITIES CORPORATION

Notes to the Interim Condensed Consolidated Financial Statements  
(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)  
For the three and nine months ended September 30, 2018  
(Unaudited)

## 7. NET CHANGES IN NON-CASH WORKING CAPITAL

The net changes in non-cash working capital included in the statement of cash flows, exclusive of the business combination impact, consist of the following:

	Nine Months Ended September 30,	
	2018	2017
	\$	\$
Accounts receivable	8,258	11,935
Supply inventory	(502)	(359)
Prepaid expenses and other	(1,040)	(839)
Accounts payable	(3,282)	(2,630)
Accrued liabilities	3,108	64
<b>Net changes in non-cash working capital</b>	<b>6,542</b>	<b>8,171</b>

## 8. FINANCIAL INSTRUMENTS

### 8.1 Fair values and classification of financial instruments

The fair values of the convertible debentures and exchangeable interest liability are determined based on the closing trading price of the debentures and the common shares at each reporting period. The fair values of notes payable and revolving credit facilities at the Facilities' level 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, due to the short-term nature of these instruments, approximate their book values.

The following table presents the carrying values and classification of the Corporation's financial instruments as at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	\$	\$
<b>Financial assets</b>		
Fair value through profit or loss		
Cash and cash equivalents	33,572	56,029
Held-to-maturity (amortized cost)		
Short-term investments	10,803	8,934
Amortized cost		
Accounts receivable	59,538	63,476
<b>Financial liabilities</b>		
Fair value through profit or loss		
Convertible debentures	32,606	33,533
Exchangeable interest liability	65,553	67,107
Amortized cost		
Interest payable	474	-
Dividends payable	2,250	2,327
Accounts payable	21,603	23,669
Accrued liabilities	23,118	18,603
Corporate credit facility	68,826	47,750
Long-term debt	68,205	65,058

# 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, 2018  
(Unaudited)

## 8. FINANCIAL INSTRUMENTS (Continued)

The financial instruments of the Corporation that are recorded at fair value have been classified into levels using a fair value hierarchy. The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at fair value as of September 30, 2018 and December 31, 2017. It does not include fair value information for financial instruments not measured at fair value and which are short-term in nature.

	September 30, 2018			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
<b>Financial assets</b>				
Cash and cash equivalents	33,572	-	-	33,572
Short-term investments	10,803	-	-	10,803
<b>Financial liabilities</b>				
Convertible debentures	32,606	-	-	32,606
Exchangeable interest liability	-	65,553	-	65,553
Corporate credit facility	-	68,826	-	68,826
Long-term debt	-	68,205	-	68,205
<b>Total</b>	<b>76,981</b>	<b>202,584</b>	<b>-</b>	<b>279,565</b>

  

	December 31, 2017			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
<b>Financial assets</b>				
Cash and cash equivalents	56,029	-	-	56,029
Short-term investments	8,934	-	-	8,934
<b>Financial liabilities</b>				
Convertible debentures	33,533	-	-	33,533
Exchangeable interest liability	-	67,107	-	67,107
Corporate credit facility	-	47,750	-	47,750
Long-term debt	-	65,058	-	65,058
<b>Total</b>	<b>98,496</b>	<b>179,915</b>	<b>-</b>	<b>278,411</b>

# 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, 2018  
(Unaudited)

## 8. FINANCIAL INSTRUMENTS (Continued)

### 8.2 Measurement of fair values

The following is the valuation technique used in measuring Level 2 fair values (the Corporation does not have any Level 3 fair values).

<b>Financial Instrument</b>	<b>Valuation Technique</b>
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 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 Corporation's risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals and interest payments discounted to present value.

## 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 *Tax Cuts and Jobs Act*, which took effect January 1, 2018 for the Corporation, reduced the United States federal corporate income tax rate to 21% from the Corporation's effective federal tax rate of 34%. The Corporation has used figures based on the new rate to prepare its current and deferred tax balances for the three and nine months ended September 30, 2018.

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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018 \$</b>	<b>2017 \$</b>	<b>2018 \$</b>	<b>2017 \$</b>
<b>Provision for Income Taxes</b>				
Current	1,431	(2,951)	2,516	(3,361)
Deferred	784	554	4,199	7,371
<b>Total income tax expense (recovery)</b>	<b>2,215</b>	<b>(2,397)</b>	<b>6,715</b>	<b>4,010</b>

# 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, 2018

(Unaudited)

## 10. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income, included in the Interim Condensed Consolidated Statements of Income and Comprehensive Income consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018 \$	2017 \$	2018 \$	2017 \$
Interest expense at Facilities' level and IMD	477	569	1,449	1,723
Interest expense on convertible debentures	474	494	1,427	1,407
Interest expense at corporate level	946	602	2,007	1,707
Amortization of available credit facility stand-by fees	48	31	106	92
Interest income at Facilities' level	(10)	(4)	(52)	(14)
Interest income at corporate level	(94)	(80)	(257)	(235)
<b>Interest expense, net of interest income</b>	<b>1,841</b>	<b>1,612</b>	<b>4,680</b>	<b>4,680</b>

## 11. RELATED PARTY TRANSACTIONS AND BALANCES

### 11.1 Equity accounted investments

The Corporation owns a 54.22% equity interest in Mountain Plains Real Estate Holdings, LLC ("MPREH"), an entity over which it has significant influence. The Corporation uses the equity method to account for this investment, which was valued at \$712 as of September 30, 2018 (December 31, 2017: \$698).

The Corporation owns a 32.0% equity interest in South Dakota Interventional Pain Institute, LLC ("SDIPI"). The Corporation has significant influence over the associate because of its equity position and its representation on the board of the associate. The investment in and loan receivable from the associate as at September 30, 2018 were \$579 and \$37, respectively (December 31, 2017: \$534 and \$55, respectively).

The Corporation has a 0.35% ownership interest in an entity that holds an indirect interest in BHSH for a total investment of \$341 (December 31, 2017: \$341), for which the investment is accounted for at cost in the consolidated financial statements.

Together, the three investments comprise the 'Other assets' on the Interim Condensed Consolidated Balance Sheets.

### 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, 2018 of \$3,376 (September 30, 2017: \$3,376). As well, the director is a minority member of another ownership group that owns and leases imaging equipment to the same Facility, for which the Facility paid equipment rent for the nine months ended September 30, 2018 of \$445 (September 30, 2017: \$445).

# 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, 2018  
(Unaudited)

---

## 11. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facilities 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 by the related parties. For the nine months ended September 30, 2018, SFSH paid SDIPI \$495 for the use of a facility and related equipment (September 30, 2017: \$495). As of September 30, 2018, SFSH had a balance payable to SDIPI of \$49 (December 31, 2017: \$59). For the nine months ended September 30, 2018, BSHH paid MPREH \$135 for the use of a facility (September 30, 2017: \$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 a 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 of the 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 the legal counsel, management records an estimate of the amount of the ultimate expected loss for each of these matters. Events could occur that would cause the estimate of the ultimate loss to differ materially from the amounts recorded.

# MEDICAL FACILITIES CORPORATION

Notes to the Interim Condensed Consolidated Financial Statements  
(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)  
For the three and nine months ended September 30, 2018  
(Unaudited)

## 13. SHARE-BASED COMPENSATION

### 13.1 Stock Options

The following table summarizes the outstanding number of stock options as of September 30, 2018:

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	425,000	C\$17.98	November 21, 2016
Chief Development Officer	350,000	C\$21.15	September 19, 2016
Vice-President, Operations	120,000	C\$14.03	March 29, 2018
Former Chief Executive Officer	223,562	C\$17.24	May 1, 2016
<b>Total number of outstanding options</b>	<b>1,918,562</b>		

Outstanding options (the "Options") will vest after five years of employment and, for certain executive officers, subject to the Corporation maintaining a dividend rate not less than the rate in effect at the time of the grant date. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions.

During the nine months ended September 30, 2018, the Corporation recognized \$318 (September 30, 2017: \$268) 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 2018 Grants Issued	Q2 2017 Grants Issued	Q4 2016 Grants Issued	Q3 2016 Grants Issued	Q2 2016 Grants Issued
<b>Fair value of Options, grants and assumptions</b>					
Fair value at grant date	C\$ 1.33	C\$ 1.27	C\$ 1.41	C\$ 2.00	C\$ 1.33
Share price at grant date	C\$14.03	C\$16.68	C\$18.19	C\$21.57	C\$17.01
Exercise price	C\$14.03	C\$16.47	C\$17.98	C\$21.15	C\$17.24
Expected volatility (weighted average volatility)	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
Expected dividends	8.02%	6.74%	6.18%	5.22%	6.61%
Risk-free rate	1.96%	0.99%	0.99%	0.73%	1.03%



# MEDICAL FACILITIES CORPORATION

Notes to the Interim Condensed Consolidated Financial Statements  
(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)  
For the three and nine months ended September 30, 2018  
(Unaudited)

## 13. SHARE-BASED COMPENSATION (Continued)

### 13.2 Deferred Share Units

Compensation for directors includes a deferred share unit (“DSU”) component, for which grants based on the value of the Corporation’s common shares are made quarterly. The DSUs accrue dividends, vest immediately and can be redeemed only when a participant ceases to serve as a director of the Corporation. The participant’s entitlement in respect of the DSUs then held will be settled in cash based on a formula tied to the value of the Corporation’s common shares at the relevant time. For the nine months ended September 30, 2018, director compensation included DSU grants of \$353 (September 30, 2017: \$277), while the change in market value of outstanding DSUs for the same period was a recovery of \$53 (September 30, 2017: a recovery of \$11).

The following table summarizes changes in the DSUs for nine months ended September 30, 2018:

	\$
Opening balance of DSUs at January 1, 2018	95,943
DSUs granted on director fees	31,641
Additional DSUs grant	1,960
DSUs granted on dividend reinvestment	6,391
<b>Total number of DSUs at September 30, 2018</b>	<b>135,935</b>

### 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 and from time to time. Effective 2018, annual RSU grants were replaced by annual performance share unit (“PSU”) grants. The RSU grants vest over three years, participate in the Corporation’s monthly 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 stock price at the end of each reporting period. For the nine months ended September 30, 2018, salaries and benefits included RSU expense of \$175 (September 30, 2017: \$133). As at September 30, 2018, the liability for RSUs was \$220.

The following table summarizes changes in the RSUs for the nine months ended September 30, 2018:

	\$
Opening balance of RSUs at January 1, 2018	33,451
RSUs granted	17,040
RSUs vested and settled	(7,869)
RSUs granted on dividend reinvestment	2,398
<b>Total number of RSUs at September 30, 2018</b>	<b>45,020</b>

# 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, 2018  
(Unaudited)

---

## 13. SHARE-BASED COMPENSATION (Continued)

### 13.4 Performance Share Units

The PSU grants vest at the end of three years, participate in the Corporation's monthly dividends and settle in cash, subject to achievement of performance objectives set at the time of the grant. To date, a grant was made on March 29, 2018 for 59,003 PSUs. The value of the expense and liability associated with the PSUs is determined based on the Corporation's stock price at the end of each reporting period. For the nine months ended September 30, 2018, salaries and benefits included a PSU expense of \$117. As at September 30, 2018, the liability for PSUs was \$117.

The following table summarizes changes in the PSUs for the nine months ended September 30, 2018:

	\$
Opening balance of PSUs at January 1, 2018	-
PSUs granted	59,003
PSUs granted on dividend reinvestment	2,329
<b>Total number of PSUs at September 30, 2018</b>	<b>61,332</b>

## 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 and presentation currency

The Corporation translates monetary assets and liabilities denominated in Canadian dollars, principally its convertible debentures, 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.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

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 balance sheet with periodic changes in fair value of that liability reflected in net income and comprehensive income.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 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.

### 14.6 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.

### 14.7 Short-term and long-term investments

Investments represent liquid investments purchased with a maturity of three months or more. 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.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 14.8 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) Amounts billed are reduced by an allowance for third-party payor adjustments which are maintained at a level management believes reflects the estimated adjustments that will be applied upon collection of the amounts billed. The allowance is established using the third-party payor contracts effective at period end and/or based on historical payment rates.
- (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.

### 14.9 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.

### 14.10 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 and declining balance methods over the estimated useful lives of the assets. Assets under finance leases are depreciated 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. Land is not depreciated.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimated useful lives of property and equipment are as follows:

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

Leases that substantially transfer the risk and benefits of ownership are capitalized with the cost included in property and equipment and the related liability recorded in long-term debt.

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

### 14.11 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.

### 14.12 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, 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, other than trade names, from the date they are available for use. The estimated useful lives of other intangibles are as follows:

Hospital operating licenses	5 years
Non-compete agreements	5 years
Medical charts and records	5-10 years
Care networks	10-18 years

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Trade names are not amortized as there is no foreseeable limit to the period over which trade names are expected to generate cash inflows for the Corporation.

### 14.13 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, such as goodwill and trade names, 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 seven MFC Nueterra ASCs which collectively constitute a single CGU.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to dispose and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 Facility and, then, to reduce the carrying amount of the other assets of the respective Facility on a pro rata basis.

### 14.14 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.

The Corporation initially recognizes financial liabilities 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 liability when its contractual obligations are discharged, cancelled, or expire.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 14.15 Impairment of non-derivative financial assets

Financial assets not designated as fair value through profit or loss (“FVTPL”), including interests in equity accounted investees, are assessed at each reporting date to determine whether there is objective evidence of impairment.

#### 14.15.1 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.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income and comprehensive income and reflected in an allowance account. If the amount of an impairment loss subsequently decreases, then the amount is reversed through net income and comprehensive income.

#### 14.15.2 Equity-accounted investee

An impairment loss in respect of an equity-accounted investee 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.

### 14.16 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.



# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

### 14.17 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.

### 14.18 Convertible debentures

The Corporation's convertible debentures are convertible into a fixed number of common shares at the option of the holder. The number of common shares to be issued does not vary with changes in the market value of the convertible debentures.

The convertible debentures are denominated in Canadian dollars while the Corporation's functional currency is U.S. dollars, which requires the Corporation to deliver a variable amount of cash to settle the obligation. Because the conversion option requires the Corporation to deliver a fixed number of common shares to settle a variable liability, the convertible debentures are considered hybrid financial instruments. The Corporation elected to account for the convertible debentures as a financial liability measured at FVTPL. The changes in the recorded amounts of the liability, resulting from the changes in the fair value of the convertible debentures and fluctuations in foreign exchange rates between the periods, are reflected in net income and comprehensive income.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 14.19 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.

### 14.20 Income taxes

Income tax expense (recovery) consists of current and deferred taxes. Income tax expense (recovery) is recognized in the Interim 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.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 14.21 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.

### 14.22 New and revised IFRS adopted

The Corporation has applied the following new and revised IFRS which are effective for periods beginning January 1, 2018, without any significant impact.

#### 14.22.1 IFRS 2 *Share-Based Payments*

In September 2016, the IASB issued amendments to IFRS 2 *Share-Based Payments*. The amendments provide clarification on how to account for certain types of share-based payment transactions.

#### 14.22.2 IFRS 9 *Financial Instruments*

In 2014, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9"), replacing IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), and related interpretations. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. IFRS 9 became effective for annual periods beginning on or after January 1, 2018.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Classification and Measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on these categories: amortized cost, fair value through other comprehensive income, and FVTPL. Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL.

The following table summarizes the classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities.

<b>Asset/Liability</b>	<b>Classification under IAS 39</b>	<b>Classification under IFRS 9</b>
Cash and cash equivalents	Fair value through profit and loss(i)	Fair value through profit and loss
Short term investments	Fair value through profit and loss(i)	Fair value through profit and loss
Accounts receivable	Loans and receivables	Amortized cost
Trade payables and other liabilities	Other liabilities	Amortized cost
Long term debt	Other liabilities	Amortized cost
Convertible debentures	Fair value through profit and loss(ii)	Fair value through profit and loss
Exchangeable interest liability	Fair value through profit and loss(ii)	Fair value through profit and loss

(i) Financial instruments designated at fair value through profit and loss.

(ii) Financial instruments required to be classified at fair value through profit and loss.

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.

### Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (“ECL”) model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new 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.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses are recorded in general and administrative expenses in the Interim Consolidated Statements of Income and Comprehensive 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 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 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.

The Corporation applied ECL models to the assessment of impairment on trade receivables and other financial assets of the Corporation. The Corporation adopted the practical expedient to determine ECL on trade receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required 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. The provision matrix and ECL models applied do not have a material impact on accounts receivables and other financial assets of the Corporation.

### 14.22.3 IFRS 15 Revenue from Contracts with Customers

In 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), replacing IAS 18, *Revenue* ("IAS 18"), IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted the standard with no material impact on its consolidated financial statements.

Under IFRS 15, the Corporation recognizes revenue when control of the goods or services has been transferred. Revenue is measured at the amount of consideration to which the Corporation expects to be entitled to, including variable consideration to the extent that it is probable that a significant reversal will not occur.

Facility service revenue ("revenue") consists of the actual amounts received and the estimated net realizable amounts receivable from patients and third-party payors. Revenue is derived from the provision of the facilities and ancillary services for the performance of scheduled (as opposed to emergency) surgical, imaging, and diagnostic procedures. The Facilities bill either their patients or the patients' third-party payors, that provide insurance and coverage to patients, as of the date of service upon completion of the procedure. Revenue is recognized as of the date of the service when the recovery of consideration is probable and the Corporation has satisfied with its performance obligation.

# 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, 2018  
(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

A small amount of revenue is received directly from self-paying patients while the majority of revenue is received from third-party payors. Revenue is only recorded where collectability is highly probable. As a result, certain amounts for self-paying patients are not recognized in revenue. Each Facility has agreements with third-party payors that provide for payments at amounts different from the Facility's established rates. Payment arrangements include pre-determined rates per diagnosis, reimbursed costs, discounted charges, and per diem payments. As a result of established agreements with third-party payors, settlements under reimbursement arrangements are determined with a high degree of accuracy and are accrued on an estimated basis in the period the services are rendered, and are adjusted in future periods, as final settlements are determined. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the period of settlement. Up to the sale of IMD's assets on June 1, 2018, revenue relating to IMD's third-party business solution service was included in revenue, and consisted of fees for business services provided to healthcare entities, recorded as services were provided and collection was reasonably assured.

### 14.23 New and revised IFRS not yet adopted

The Corporation has not applied the following new and revised IFRS that have been issued but are not yet effective.

#### 14.23.1 IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding right of use asset on the balance sheet. There are minimal changes to lessor accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 has been adopted. The Corporation intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019.

While the Corporation is in the process of determining the extent of the impact of adoption, the modified retrospective approach will be used as the method of transition, resulting in a cumulative catch-up gain or loss from the adoption being recorded in opening retained earnings on January 1, 2019. Furthermore, the Corporation will elect to measure the right-of-use asset of leases at the amount equal to lease liability. As a result of the adoption, both assets and liabilities are expected to increase materially in the year of adoption.

# 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, 2018

(Unaudited)

---

## 14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 14.23.2 IFRIC 23 *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23") in response to diversity in practice for various issuers in circumstances in which there is uncertainty in the application of the tax law. While IAS 12, *Income Taxes* provides requirements on the recognition and measurement of current and deferred tax assets and liabilities, there is diversity in the accounting for income tax treatments that have yet to be accepted by tax authorities. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019 and may be applied on a fully retrospective basis, if it is possible without the use of hindsight, or on a modified retrospective basis, with an adjustment to equity on initial application. Earlier application is permitted. The Corporation intends to adopt IFRIC 23 in its consolidated financial statements for the annual period beginning on January 1, 2019.