Interim Condensed Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

For the three and nine months ended September 30, 2013
(Unaudited)
(In U.S. dollars)

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MEDICAL FACILITIES CORPORATION

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

	Note	September 30, 2013 $ *(unaudited)*	December 31, 2012 $
ASSETS			
Current assets			
Cash and cash equivalents		29,500	35,376
Short-term investments		11,586	11,284
Accounts receivable		46,887	46,875
Supply inventory		5,753	5,654
Prepaid expenses and other		4,167	4,049
Income tax receivable		2,537	6,936
Total current assets		**100,430**	**110,174**
Non-current assets			
Foreign exchange forward contracts		-	1,507
Deferred income tax assets	8	37,385	37,520
Investment in and loan receivable from an associate		368	289
Property and equipment		68,627	64,340
Goodwill		104,696	104,696
Other intangibles		108,817	121,265
Total non-current assets		**319,893**	**329,617**
TOTAL ASSETS		**420,323**	**439,791**
LIABILITIES AND EQUITY			
Current liabilities			
Accrued interest payable		599	607
Dividends payable		2,854	2,669
Accounts payables		10,924	14,744
Accrued liabilities		14,338	16,198
Current portion of long-term debt		10,623	13,959
7.5% debentures		-	45,729
Total current liabilities		**39,338**	**93,906**
Non-current liabilities			
Long-term debt		33,838	27,685
Foreign exchange forward contracts		1,139	-
5.9% debentures		41,078	42,434
Exchangeable interest liability		96,232	85,726
Total non-current liabilities		**172,287**	**155,845**
Total liabilities		**211,625**	**249,751**
Equity			
Share capital		401,033	361,936
Deficit		(245,298)	(227,014)
Equity attributable to owners of the Corporation		155,735	134,922
Non-controlling interest		52,963	55,118
Total equity		**208,698**	**190,040**
TOTAL LIABILITIES AND EQUITY		**420,323**	**439,791**

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

MEDICAL FACILITIES CORPORATION

Interim 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 $**	**Deficit $**	**Total $**	**$**	**$**
2013						
Balance at December 31, 2012		361,936	(227,014)	134,922	55,118	190,040
Net income and comprehensive income		-	1,172	1,172	21,807	22,979
Dividends to owners of the Corporation		-	(24,881)	(24,881)	-	(24,881)
Distributions to non-controlling interest		-	-	-	(24,731)	(24,731)
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		299	-	299	-	299
Equity contribution by non-controlling interests to Black Hills Surgical Hospital, LLP		-	-	-	769	769
Conversion of 7.5% debentures into common shares		40,013	5,425	45,438	-	45,438
Purchase of common shares under normal course issuer bids	5	(1,215)	-	(1,215)	-	(1,215)
Balance at September 30, 2013		**401,033**	**(245,298)**	**155,735**	**52,963**	**208,698**
2012						
Balance at December 31, 2011		361,935	(228,352)	133,583	18,241	151,824
Net income and comprehensive income		-	1,736	1,736	20,519	22,255
Dividends to owners of the Corporation		-	(23,506)	(23,506)	-	(23,506)
Distributions to non-controlling interest		-	-	-	(20,326)	(20,326)
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		722	-	722	-	722
Conversion of 7.5% debentures into common shares		114	8	122	-	122
Purchase of common shares under normal course issuer bid	5	(462)	-	(462)	-	(462)
Balance at September 30, 2012		**362,309**	**(250,114)**	**112,195**	**18,434**	**130,629**

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MEDICAL FACILITIES CORPORATION

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

	Note	Three Months Ended September 30, 2013 $	Three Months Ended September 30, 2012 $	Nine Months Ended September 30, 2013 $	Nine Months Ended September 30, 2012 $
Facility service revenue		**72,974**	**54,322**	**219,542**	**167,516**
Operating expenses					
Salaries and benefits		19,601	14,615	58,597	42,617
Drugs and supplies		20,843	14,444	61,610	42,125
General and administrative		10,799	7,465	31,882	22,136
Depreciation of property and equipment		2,458	1,736	6,960	5,173
		53,701	**38,260**	**159,049**	**112,051**
Income from operations		**19,273**	**16,062**	**60,493**	**55,465**
Amortization of other intangibles		**4,195**	**3,112**	**12,448**	**9,432**
Finance costs					
Interest expense, net of interest income	6	1,201	1,315	4,063	3,883
Interest expense on exchangeable interest liability		1,995	1,635	6,268	5,778
Loss (gain) on foreign currency	7	(2,105)	(3,195)	2,988	(3,313)
		1,091	**(245)**	**13,319**	**6,348**
Income before undernoted		**13,987**	**13,195**	**34,726**	**39,685**
Increase (decrease) in values of convertible debentures		(154)	4,577	118	5,185
Increase in value of exchangeable interest liability		7,816	10,254	10,805	15,734
Income (loss) before income taxes		**6,325**	**(1,636)**	**23,803**	**18,766**
Income tax expense (recovery)	8	(1,688)	(3,291)	824	(3,489)
Net income and comprehensive income for the period		**8,013**	**1,655**	**22,979**	**22,255**
Attributable to:					
Owners of the Corporation		1,075	(4,298)	1,172	1,736
Non-controlling interest		6,938	5,953	21,807	20,519
		8,013	**1,655**	**22,979**	**22,255**
Basic and fully diluted earnings (loss) per share attributable to owners of the Corporation	9	**$ 0.034**	**$ (0.152)**	**$ 0.039**	**$ 0.061**

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

MEDICAL FACILITIES CORPORATION

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

	Note	Nine Months Ended September 30, 2013 $	2012 $
Cash flows from operating activities			
Net income and comprehensive income for the period		22,979	22,255
Adjustments for:			
Depreciation of property and equipment		6,960	5,173
Amortization of other intangibles		12,448	9,432
Share of equity loss (income) in an associate		(108)	4
Increase in values of convertible debentures		118	5,185
Increase in value of exchangeable interest liability		10,805	15,734
Interest expense, net of interest income	6	4,063	3,883
Loss (gain) on foreign currency	7	2,988	(3,313)
Deferred income tax expense (recovery)	8	135	(5,401)
Current income tax expense	8	689	1,912
Interest paid		(4,022)	(3,054)
Income and withholding taxes received		3,709	918
Change in non-cash operating working capital		(6,191)	(1,808)
Net cash provided by operating activities		**54,573**	**50,920**
Cash flows from investing activities			
Purchase of property and equipment		(11,247)	(9,124)
Purchase of short-term investments		(303)	(5,384)
Redemption of long-term investments		-	2,526
Release of collateral on foreign exchange forward contracts		-	4,483
Cash interest received		235	181
Net cash used in investing activities		**(11,315)**	**(7,318)**
Cash flows from financing activities			
Proceeds from revolving credit facilities at the Centers		7,197	2,716
Repayments of notes payable and obligations under lease arrangements at the Centers		(4,380)	(2,339)
Distributions, return of capital and loan receivable from an associate		29	55
Distributions to non-controlling interest		(24,731)	(20,326)
Dividends paid		(24,696)	(23,356)
Equity contribution by non-controlling interests to Black Hills Surgical Hospital, LLP		769	-
Redemption of 7.5% debentures		(1,765)	-
Purchase of common shares under the terms of normal course issuer bids	5	(1,215)	(462)
Net cash used in financing activities		**(48,792)**	**(43,712)**
Decrease in cash and cash equivalents		**(5,534)**	**(110)**
Effect of exchange rate fluctuations on cash balances held		(342)	3,400
Cash and cash equivalents, beginning of the period		35,376	17,984
Cash and cash equivalents, end of the period		**29,500**	**21,274**
Non-cash transaction:			
Acquisition of additional interests in Oklahoma Spine Hospital, LLC		299	722
Conversion of 7.5% debentures into common shares		45,438	122

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 "Company"), is a British Columbia corporation and a public company listed on the Toronto Stock Exchange under the ticker symbol "DR". The Company owns indirect controlling interests in six limited liability entities (the "Centers" and collectively with the Company, the "Corporation"), each of which owns a specialty hospital or an ambulatory surgery center located in the United States. The Centers, their locations and the Corporation's ownership interest in each are as follows:

		Ownership Interest September 30,	
Centers	**Location**	**2013**	**2012**
Black Hills Surgical Hospital, LLP	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP	Sioux Falls, South Dakota	51.0%	51.0%
Dakota Plains Surgical Center, LLP	Aberdeen, South Dakota	64.6%	64.6%
Oklahoma Spine Hospital, LLC	Oklahoma City, Oklahoma	58.8%	58.5%
The Surgery Center of Newport Coast, LLC	Newport Beach, California	51.0%	51.0%
Arkansas Surgical Hospital, L.L.C.	North Little Rock, Arkansas	51.0%	-

2. BASIS OF PREPARATION

2.1 Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB") and follow the same accounting policies and methods of computation as used in the Corporation's audited consolidated financial statements for the year ended December 31, 2012, except for the new accounting pronouncements which have been adopted on January 1, 2013 and described in note 3 below. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2012.

These interim condensed consolidated financial statements were approved by the Corporation's board of directors on November 13, 2013.

2.2 Basis of measurement

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

2. BASIS OF PREPARATION (Continued)

2.3 Functional and presentation currency

The Corporation's 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.

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.

2.4 Use of judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, facility service revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the circumstances as the basis for its judgments and estimates. Actual results may differ from these estimates. Such differences in estimates are recognized when the estimates are revised.

Management's judgment is required in respect of (i) consolidation, (ii) functional currency, (iii) recognition of deferred tax assets and liabilities and (iv) classification of leases.

Management's estimates are required in respect of (i) facility service revenue and accounts receivable, (ii) supply inventory, (iii) valuation of financial instruments, (iv) acquired assets and liabilities, primarily goodwill and other intangibles, (v) impairment of goodwill and other intangibles, (vi) provision for potential liabilities and contingencies and (vii) income tax provisions.

3. NEWLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Corporation adopted the following accounting pronouncements effective January 1, 2013:

1. IFRS 10, *Consolidated Financial Statements* which replaces guidance on the control and consolidation requirements in IAS 27, *Separate Financial Statements.* There was no impact on the financial statements as a result of adopting IFRS 10.

2. IFRS 12, *Disclosure of Interests in Other Entities* which requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. There was no impact on the financial statements as a result of adopting IFRS 12.

3. IFRS 13, *Fair Value Measurement* which provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for when fair value measurement is required or permitted under International Financial Reporting Standards. There was no impact on the financial statements as a result of adopting IFRS 13.

4. Amendments to IAS 1, *Presentation of Financial Statements* which require the grouping together of other comprehensive income ("OCI") items that may be reclassified to the Statement of Earnings within OCI. There was no impact on the financial statements as a result of adopting amendments to IAS 1.

5. Amendments to IAS 19, *Employee Benefits* which require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur and accelerate the recognition of past service costs. There was no impact on the financial statements as a result of adopting amendments to IAS 19.

4. RECENTLY ANNOUNCED ACCOUNTING PRONOUNCEMENTS

The Corporation is in the process of evaluating the impact of the following new accounting pronouncements:

4.1 Impairment of assets

In May 2013, the IASB published *Recoverable Disclosures for Non-Financial Assets* (Amendments to IAS 36, *Impairment of Assets* ("IAS 36")). These amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014 with early application permitted when the entity has already applied IFRS 13, *Fair Value Measurement*. The Corporation does not expect these amendments to IAS 36 to have a material impact on its financial statements.

4.2 Financial instruments

In June 2013, the IASB published *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*, a limited scope amendment to IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and the forth coming chapter on hedge accounting in IFRS 9, *Financial Instruments*. These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014 with early application permitted. The Corporation does not expect these amendments to IAS 39 to have a material impact on its financial statements.

5. NORMAL COURSE ISSUER BIDS

The Corporation's current normal course issuer bid is in effect from May 15, 2013 to May 14, 2014. During the three-month period ended September 30, 2013, the Corporation purchased 1,000 of its common shares for a total consideration of $15, recorded in share capital. During the nine-month period ended September 30, 2013, the Corporation purchased 83,300 of its common shares for a total consideration of $1,215, recorded in share capital.

Pursuant to the normal course issuer bid which terminated on May 14, 2013, during the three-month period ended September 30, 2012, the Corporation purchased 14,500 of its common shares for a total consideration of $199, recorded in share capital. During the nine-month period ended September 30, 2012, the Corporation purchased 34,558 of its common shares for a total consideration of $462, recorded in share capital.

All common shares acquired were cancelled.

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

6. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income, included in the statement of comprehensive income consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 $	2012 $	2013 $	2012 $
Interest expense at Centers' level	442	469	1,318	1,410
Interest expense on convertible debentures	599	817	2,709	2,410
Amortization of available line of credit stand-by fees	91	94	271	245
Interest income	69	(65)	(235)	(182)
Interest expense, net of interest income	**1,201**	**1,315**	**4,063**	**3,883**

7. LOSS (GAIN) ON FOREIGN CURRENCY

Loss (gain) on foreign currency included in the statement of comprehensive income consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 $	2012 $	2013 $	2012 $
Unrealized loss (gain) on foreign exchange forward contracts	(1,819)	(2,000)	2,646	87
Realized loss (gain) on foreign exchange forward contracts which matured in the current period	14	(867)	(486)	(3,146)
Translation loss (gain) on cash balances denominated in Cdn$	(300)	(328)	828	(254)
Loss (gain) on foreign currency	**(2,105)**	**(3,195)**	**2,988**	**(3,313)**

Unrealized loss (gain) on convertible debentures is included in the statement of comprehensive income as part of the "Increase (decrease) in values of convertible debentures".

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

8. INCOME TAXES

The deferred income tax assets included in the balance sheet represent the following:

	September 30, 2013 $	December 31, 2012 $
Deferred income tax assets related to U.S. tax entity	14,885	11,020
Deferred income tax assets related to Canadian tax entity	22,500	26,500
Deferred income tax assets	**37,385**	**37,520**

The following table summarizes the allocation of the income tax expense (recovery) as presented in the statement of comprehensive income between the current and deferred tax components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 $	2012 $	2013 $	2012 $
Current income tax expense (recovery)	(116)	72	689	1,912
Deferred income tax expense (recovery)	(1,572)	(3,363)	135	(5,401)
Income tax expense (recovery)	**(1,688)**	**(3,291)**	**824**	**(3,489)**

9. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 $	2012 $	2013 $	2012 $
Net income (loss) and comprehensive income (loss) for the period attributable to owners of the Corporation	1,075	(4,298)	1,172	1,736
Divided by weighted average number of common shares outstanding for the period	31,367,630	28,343,614	30,173,743	28,339,666
Basic earnings (loss) per share attributable to owners of the Corporation	**0.034**	**(0.152)**	**0.039**	**0.061**

For the three-month and nine-month periods ended September 30, 2013 and September 30, 2012, issuance of common shares upon exchange of the outstanding exchangeable interest liability and conversion of the outstanding convertible debentures would have been anti-dilutive and, therefore, the calculation of fully diluted earnings (loss) per share is not presented.

10. RELATED PARTY TRANSACTIONS AND BALANCES

The Corporation and the Centers routinely enter into transactions with certain related parties. These parties are considered related through ownership in them by the holders of non-controlling interests in the respective Centers. Such transactions are in the normal course of operations and are at the exchange amounts agreed upon by the parties involved.

The expenses (primarily general and administrative) resulting from the Corporation's and Centers' transactions with related parties for the three and nine months ended September 30, 2013 were $4,231 and $12,114, respectively, and for the three and nine months ended September 30, 2012 were $2,642 and $8,935, respectively.

The amounts payable to the related parties, included in accounts payable, as of September 30, 2013 were $403 and as of December 31, 2012 were $1,967.

10.1 Other transactions

Certain of the physicians, who indirectly own the non-controlling interest in each of the Centers, routinely provide professional services directly to patients utilizing the facilities of the Centers and reimburse the Centers for the space and staff utilized. Also, certain of the physicians serve on the boards of management of the Centers and four such individuals perform the duties of Medical Director at the respective Centers and are compensated in recognition of their contribution to the Centers.

11. COMPARATIVE INFORMATION

The Corporation made reclassification to the previously reported interim consolidated statements of comprehensive income for the three and nine months ended September 30, 2012, which did not result in changes to net income and comprehensive income. Specifically, bad debt expense of $1,208 for the three months ended September 30, 2012 and of $3,067 for the nine months ended September 30, 2012 were reclassified from line item "General and administrative" to line item "Facility service revenue". As a result of this reclassification, for the three and nine months ended September 30, 2012, facility service revenue, general and administrative expenses and operating expenses decreased by $1,208 and $3,067, respectively.