Interim Condensed Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

For the three months ended March 31, 2014
(Unaudited)
(In U.S. dollars)

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MEDICAL FACILITIES CORPORATION

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

	Note	March 31, 2014 $ (unaudited)	December 31, 2013 $
ASSETS			
Current assets			
Cash and cash equivalents		32,379	35,872
Short-term investments		9,088	9,065
Accounts receivable		40,785	50,332
Supply inventory		5,617	5,527
Prepaid expenses and other		3,322	4,046
Income tax receivable		3,120	1,118
Total current assets		**94,311**	**105,960**
Non-current assets			
Long-term investments		3,679	3,807
Restricted cash		1,802	-
Deferred income tax assets	6	52,703	50,656
Investment in and loan receivable from an associate		415	421
Property and equipment		66,967	68,200
Goodwill		104,211	104,211
Other intangibles		100,518	104,622
Total non-current assets		**330,295**	**331,917**
TOTAL ASSETS		**424,606**	**437,877**
LIABILITIES AND EQUITY			
Current liabilities			
Accrued interest payable		551	-
Dividends payable		2,660	2,765
Accounts payables		10,427	14,965
Accrued liabilities		13,430	15,328
Current portion of long-term debt		28,472	24,544
Total current liabilities		**55,540**	**57,602**
Non-current liabilities			
Long-term debt		12,656	17,875
Foreign exchange forward contracts		4,452	2,809
5.9% debentures		42,159	41,266
Exchangeable interest liability		116,841	105,841
Total non-current liabilities		**176,108**	**167,791**
Total liabilities		**231,648**	**225,393**
Equity			
Share capital		401,033	401,033
Deficit		(260,108)	(243,585)
Equity attributable to owners of the Corporation		140,925	157,448
Non-controlling interest		52,033	55,036
Total equity		**192,958**	**212,484**
TOTAL LIABILITIES AND EQUITY		**424,606**	**437,877**

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
	Share Capital $	**Deficit** $	**Total** $	$	$
2014					
Balance at December 31, 2013	401,033	(243,585)	157,448	55,036	212,484
Net income (loss) and comprehensive income (loss) for the period	-	(8,568)	(8,568)	6,618	(1,950)
Dividends to owners of the Corporation	-	(7,955)	(7,955)	-	(7,955)
Distributions to non-controlling interest	-	-	-	(9,621)	(9,621)
Balance at March 31, 2014	**401,033**	**(260,108)**	**140,925**	**52,033**	**192,958**
2013					
Balance at December 31, 2012	361,936	(227,014)	134,922	55,118	190,040
Net income (loss) and comprehensive income (loss) for the period	-	(7,308)	(7,308)	7,517	209
Dividends to owners of the Corporation	-	(7,883)	(7,883)	-	(7,883)
Distributions to non-controlling interest	-	-	-	(9,888)	(9,888)
Conversion of 7.5% debentures into common shares	4,070	630	4,700	-	4,700
Purchase of common shares under normal course issuer bid	(110)	-	(110)	-	(110)
Balance at March 31, 2013	**365,896**	**(241,575)**	**124,321**	**52,747**	**177,068**

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

MEDICAL FACILITIES CORPORATION

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

	Note	Three Months Ended March 31, 2014 $	Three Months Ended March 31, 2013 $
Facility service revenue		**72,894**	**72,891**
Operating expenses			
Salaries and benefits		20,226	19,556
Drugs and supplies		20,669	20,060
General and administrative		11,458	10,679
Depreciation of property and equipment		2,479	2,191
		54,832	**52,486**
Income from operations		**18,062**	**20,405**
Amortization of other intangibles		4,104	4,104
Finance costs			
Interest expense, net of interest income	4	951	1,719
Interest expense on exchangeable interest liability		2,558	2,334
Loss on foreign currency	5	3,108	2,015
		6,617	**6,068**
Increase in values of convertible debentures		893	3,505
Increase in value of exchangeable interest liability		11,000	7,595
Loss before income taxes		**(4,552)**	**(867)**
Income tax recovery	6	(2,602)	(1,076)
Net income (loss) and comprehensive income (loss) for the period		**(1,950)**	**209**
Attributable to:			
Owners of the Corporation		(8,568)	(7,308)
Non-controlling interest		6,618	7,517
		(1,950)	**209**
Basic and fully diluted loss per share attributable to owners of the Corporation	7	**$ (0.273)**	**$ (0.258)**

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	Three Months Ended March 31, 2014 $	2013 $
Cash flows from operating activities			
Net income (loss) and comprehensive income (loss) for the period		(1,950)	209
Adjustments for:			
Depreciation of property and equipment		2,479	2,191
Amortization of other intangibles		4,104	4,104
Share of equity loss (income) in an associate		(35)	2
Increase in values of convertible debentures		893	3,505
Increase in value of exchangeable interest liability		11,000	7,595
Interest expense, net of interest income	4	951	1,719
Loss on foreign currency	5	3,108	2,015
Deferred income tax recovery	6	(2,047)	(1,366)
Current income tax expense (recovery)	6	(555)	290
Interest paid		(972)	(1,838)
Income and withholding taxes (paid) received		(1,446)	5,970
Change in non-cash operating working capital		4,217	(2,467)
Net cash provided by operating activities		**19,747**	**21,929**
Cash flows from investing activities			
Purchase of property and equipment, net of disposals		(1,246)	(3,481)
Redemption of (investment in) short-term investments		(23)	4,145
Redemption of long-term investments		128	-
Collateral posted on foreign exchange forward contracts classified as restricted cash		(1,802)	-
Cash interest received		100	192
Net cash (used in) provided by investing activities		**(2,843)**	**856**
Cash flows from financing activities			
Proceeds from revolving credit facilities at the Centers		-	1,930
Repayments of notes payable and obligations under lease arrangements at the Centers		(1,292)	(1,303)
Distributions, return of capital and loan receivable from an associate		41	10
Distributions to non-controlling interest		(9,621)	(9,888)
Dividends paid		(8,060)	(7,910)
Purchase of common shares under the terms of normal course issuer bid		-	(110)
Net cash used in financing activities		**(18,932)**	**(17,271)**
Increase (decrease) in cash and cash equivalents		**(2,028)**	**5,514**
Effect of exchange rate fluctuations on cash balances held		(1,465)	(78)
Cash and cash equivalents, beginning of the period		35,872	35,376
Cash and cash equivalents, end of the period		**32,379**	**40,812**
Non-cash transaction:			
Conversion of 7.5% debentures into common shares		-	4,700

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 March 31,	
Centers	**Location**	**2014**	**2013**
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%
Dakota Plains Surgical Center, LLP ("DPSC")	Aberdeen, South Dakota	64.6%	64.6%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	58.8%	58.5%
The Surgery Center of Newport Coast, LLC ("Newport Coast")	Newport Beach, California	51.0%	51.0%
Arkansas Surgical Hospital, L.L.C. ("ASH")	North Little Rock, Arkansas	51.0%	51.0%

2. BASIS OF PREPARATION

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, 2013. These unaudited interim condensed 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, 2013, which includes information necessary or useful to understand the Corporation's business and financial statement presentation.

These interim condensed consolidated financial statements are presented in United States dollars.

These interim condensed consolidated financial statements were approved by the Corporation's board of directors on May 14, 2014.

3. 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.

3.1 IFRS 9, *Financial Instruments*

IFRS 9, *Financial Instruments* was issued by the IASB on November 12, 2009 and will replace IAS 39, *Financial Instruments – Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The new standard requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also provides for new measurement guidance for financial liabilities designated at fair value through profit or loss. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9, *Financial Instruments* (2013). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. However, in its February 2014 meeting, the IASB tentatively decided that IFRS 9 would be mandatorily effective for annual periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of IFRS 9 on its financial statements and does not intend to early adopt IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) in its financial statements for the annual period beginning on January 1, 2015.

3.2 Annual improvements to IFRS (2010 – 2012) and (2011 – 2013) cycles

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case, the related consequential amendments to other IFRS would also apply.

The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

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

4. 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 March 31, 2014 $	Three Months Ended March 31, 2013 $
Interest expense at Centers' level	416	433
Interest expense on convertible debentures	551	1,391
Amortization of available line of credit stand-by fees	84	87
Interest income	(100)	(192)
Interest expense, net of interest income	**951**	**1,719**

5. LOSS (GAIN) ON FOREIGN CURRENCY

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

	Three Months Ended March 31, 2014 $	Three Months Ended March 31, 2013 $
Unrealized loss (gain) on foreign exchange forward contracts	1,643	1,937
Realized loss (gain) on foreign exchange forward contracts which matured in the current period	840	(428)
Translation loss (gain) on cash balances denominated in Cdn$	625	506
Loss (gain) on foreign currency	**3,108**	**2,015**

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

6. INCOME TAXES

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

	March 31, 2014 $	December 31, 2013 $
Deferred income tax assets related to U.S. tax entity	20,203	16,756
Deferred income tax assets related to Canadian tax entity	32,500	33,900
Deferred income tax assets	**52,703**	**50,656**

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

6. INCOME TAXES (Continued)

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

	Three Months Ended March 31,	
	2014 **$**	**2013** **$**
Current income tax expense (recovery)	(555)	290
Deferred income tax recovery	(2,047)	(1,366)
Income tax recovery	**(2,602)**	**(1,076)**

7. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended March 31,	
	2014 **$**	**2013** **$**
Net loss and comprehensive loss for the period attributable to owners of the Corporation	(8,568)	(7,308)
Divided by weighted average number of common shares outstanding for the period	31,366,750	28,352,341
Basic loss per share attributable to owners of the Corporation	**(0.273)**	**(0.258)**

For the three months ended March 31, 2014 and March 31, 2013, 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.

8. 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 months ended March 31, 2014 were $4,676 and for the three months ended March 31, 2013 were $3,846.

The amounts payable to the related parties, included in accounts payable, as of March 31, 2014 were $700 and as of December 31, 2013 were $552.

8. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

8.1 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.