MEDICAL FACILITIES CORPORATION

FIRST QUARTER OF FISCAL 2025

MEDICAL FACILITIES CORPORATION	**MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2025**

May 7, 2025

The following Management's Discussion and Analysis ("MD&A") is intended to assist readers in understanding Medical Facilities Corporation (the "Corporation"), its business environment, strategies, performance, outlook and the risks applicable to the Corporation. It is supplemental to and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of the Corporation for the three months ended March 31, 2025 (the "financial statements"), which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, the audited consolidated financial statements and accompanying notes of the Corporation for the year ended December 31, 2024 ("annual financial statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards"), and the Corporation's annual MD&A for the year ended December 31, 2024 ("annual MD&A").

Substantially all of the Corporation's operating cash flows are in U.S. dollars and all amounts presented in the financial statements and herein, except per share amounts, are stated in thousands of U.S. dollars, unless indicated otherwise.

Additional information about the Corporation and its annual information form are available on SEDAR+ at www.sedarplus.ca.

TABLE OF CONTENTS

1. CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain information in this MD&A may constitute "forward-looking information" within the meaning of applicable securities legislation. All information contained in this MD&A, other than statements of current and historical fact, is forward-looking information. Forward-looking information includes, but is not limited to, the discussion of the Corporation's business and operating initiatives, focuses and strategies, expectations of future performance and consolidated financial results, and expectations with respect to cash flows and level of liquidity. Generally, forward-looking information can be identified by use of words such as "may", "will", "could", "should", "would", "expect", "believe", "plan", "anticipate", "intend", "forecast", "objective" and "continue" (or the negative thereof) and other similar terminology. All of the forward-looking information in this MD&A is qualified by this cautionary statement.

Forward-looking information is not, and cannot be, a guarantee of future results or events. Forward-looking information is based on, among other things, opinions, assumptions, estimates and analyses that, while considered reasonable at the date the forward-looking information is provided, inherently are subject to significant risks, uncertainties, contingencies and other factors that may cause actual results, performance or achievements, industry results or events to be materially different from those expressed or implied by the forward-looking information. The material factors or assumptions that were identified and applied in drawing conclusions or making forecasts or projections set out in the forward-looking information include, but are not limited to: the successful execution of business strategies, consistent and stable economic conditions and conditions in the financial markets, and the consistent and stable legislative environment in which the Corporation operates.

Inherent in the forward-looking information are known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements, or industry results, to differ materially from any results, performance or achievements expressed or implied by such forward-looking information. Those risks, uncertainties and other factors that could cause actual results to differ materially from the forward-looking information include, but are not limited to: ability to obtain and maintain contractual arrangements with insurers and other payors, ability to attract and retain qualified physicians, availability of qualified personnel or management, legislative and regulatory changes, capital expenditures, general state of the economy, global supply chain disruptions, enactment of import tariffs or other restrictive trade policies and measures, competition in the industry, currency risk, interest rate risk, success of new service lines introductions, ability to maintain profitability and manage growth, revenue and cash flow volatility, credit risk, operating risks, performance of obligations/maintenance of client satisfaction, public health crises or outbreaks of infectious diseases, information technology governance and security, occurrences of natural and man-made disasters and similar events, risk of future legal proceedings, insurance limits, income tax matters, ability to meet solvency requirements to pay dividends, leverage and restrictive covenants, unpredictability and volatility of common share price, and issuance of additional common shares diluting existing shareholders' interests, and other factors set forth under the heading "Risk Factors" in this MD&A and under the heading "Risk Factors" in the Corporation's most recently filed annual information form (which is available on SEDAR+ at www.sedarplus.ca).

Given these risks, uncertainties and other factors, investors should not place undue reliance on forward-looking information as a prediction of actual results. The forward-looking information reflects management's current expectations and beliefs regarding future events and operating performance and is based on information currently available to management. Although management has attempted to identify important factors that could cause actual results to differ materially from the forward-looking information contained herein, there are other factors that could cause results not to be as anticipated, estimated or intended. The forward-looking information contained herein is current as of the date of this MD&A and, except as required under applicable law, the Corporation does not undertake the obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

2. NON-IFRS FINANCIAL MEASURES

The Corporation uses certain non-IFRS financial measures which it believes provide useful measures for evaluation and assessment of the Corporation's performance. They are presented on a uniform basis from period to period, thereby allowing for consistent comparability. Management believes that the non-IFRS financial measures presented in this MD&A (i) are relevant for users of the Corporation's financial statements to assess the Corporation's performance and ability to pay dividends, and (ii) may be used to calculate certain ongoing rights and obligations of the Corporation. Non-IFRS financial measures do not have any standard meaning prescribed by IFRS Accounting Standards, are unlikely to be comparable to similar measures presented by other issuers, and should not be considered as alternatives to comparable measures determined in accordance with IFRS Accounting Standards as indicators of the Corporation's financial performance, including its liquidity, cash flows, and profitability.

The Corporation uses the following non-IFRS financial measures which are presented in Sections 5 and 6 of this MD&A under the heading "Reconciliation of net income for the period from continuing operations to EBITDA and Adjusted EBITDA" and in Section 7 of this MD&A under the heading "Reconciliation of Non-IFRS Financial Measures", and reconciled to the applicable IFRS measures:

- **Cash available for distribution** is a non-IFRS financial measure of cash generated from operations during a reporting period which is available for distribution to common shareholders. Cash available for distribution is derived from net cash provided by operating activities, before certain non-cash adjustments, including (i) net changes in non-cash operating working capital, (ii) market value adjustments on share-based compensation, (iii) interest expense on exchangeable interest liability, and (iv) the difference between accrual-based amounts and actual cash flows related to interest and taxes, less (v) maintenance capital expenditures, (vi) payment of lease liabilities, (vii) repayments of notes payable by the Facilities, and (viii) non-controlling interest in cash flows of the Facilities. The Corporation calculates cash available for distribution in U.S. dollars and translates it into Canadian dollars using the average exchange rate applicable during the period per the Bank of Canada. Management believes that cash available for distribution is relevant in understanding the Corporation's ability to earn cash and pay dividends to its common shareholders.

- **Cash available for distribution per common share** is a non-IFRS financial measure calculated as the cash available for distribution divided by the basic weighted average number of common shares outstanding during the period.

- **Distributions** is a non-IFRS financial measure of cash distributed to holders of common shares, more commonly referred to as dividends declared.

- **Distributions per common share** is a non-IFRS financial measure calculated as the distributions divided by the basic weighted average number of common shares outstanding during the period.

- **Earnings before interest, taxes, depreciation and amortization** ("EBITDA") is a non-IFRS financial measure defined as net income for the period from continuing operations before (i) finance costs, (ii) income taxes, (iii) depreciation of property and equipment, (iv) depreciation of right-of-use assets, (v) amortization of other intangibles, and (vi) non-operating (gains) losses. Management believes that EBITDA is relevant in understanding the Corporation's ability to service its debt, finance capital expenditures and pay dividends to its common shareholders.

- **Adjusted EBITDA** is a non-IFRS financial measure defined as EBITDA before impairment of goodwill.

- **Payout ratio** is a non-IFRS financial measure calculated as distributions per common share in Canadian dollars divided by cash available for distribution per common share in Canadian dollars. Management monitors the payout ratio to ensure the Corporation can adhere to its dividend policy.

3. BUSINESS OVERVIEW

The Corporation is a British Columbia corporation. The capital of the Corporation is in the form of publicly traded common shares. The common shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbol "DR". The Corporation's current quarterly dividend on its common shares is Cdn$0.09 per common share (refer to Section 10 "Share Capital and Dividends" of this MD&A under the heading "Dividends").

The Corporation's operations are based in the United States. Through its wholly-owned U.S.-based subsidiaries, Medical Facilities America, Inc. ("MFA") and Medical Facilities (USA) Holdings, Inc. ("MFH"), the Corporation owns controlling interests in, and/or controls by virtue of retaining approval rights over certain significant governance matters, and derives substantially all of its income from, four limited liability entities (each a "Facility" and, collectively, the "Facilities"), each of which own either a specialty surgical hospital (an "SSH") or an ambulatory surgery center (an "ASC"). The four Facilities are comprised of three SSHs located in Arkansas, Oklahoma, and South Dakota, and one ASC located in California. ASCs are specialized surgical centers that only provide outpatient procedures, whereas SSHs are licensed for both inpatient and outpatient surgeries. The SSHs and ASC provide facilities, including staffing, surgical materials and supplies, and other support necessary for scheduled surgical, pain management, imaging, and diagnostic procedures and derive their revenue primarily from the fees charged for the use of these facilities. The Facilities mainly focus on a limited number of clinical specialties such as orthopedics, neurosurgery, pain management and other non-emergency elective procedures. In addition, one of the SSHs provides urgent care services.

During 2023, the Corporation completed the divestiture of five ASCs (the "MFC Nueterra ASCs") which it indirectly owned through a partnership between its wholly-owned U.S. subsidiary and Nueterra MF Holdings, LLC.

On November 13, 2024, Black Hills Surgical Hospital, LLP ("BHSH"), a Facility located in Rapid City, South Dakota, entered into a definitive agreement to sell BHSH to Sanford Health. The transaction was completed on November 15, 2024 for cash proceeds of $96.1 million for the Corporation's 54.2% ownership share, subject to customary adjustments.

Other Information

Facility service revenue ("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.

Revenue for any given period is dependent on the volume of the procedures performed as well as the acuity and complexity of the procedures ("case mix") and composition of payors ("payor mix"), including federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Various payors have different reimbursement rates for the same type of procedure which are generally based on either predetermined rates per procedure or discounted fee-for-service rates. Medicare and Medicaid typically have lower reimbursement rates than other payors.

Revenue is recorded in the period when healthcare services are provided based upon established billing rates less adjustments required by contractual arrangements with the payors. Estimates of contractual adjustments under payor arrangements are based upon the payment terms specified in the related contractual agreements and payment history.

The volume of procedures performed at the Facilities depends on, among other things: (i) the Facilities' ability to deliver high quality care and superior services to patients and their family members; (ii) the Facilities' success in encouraging physicians to perform procedures at the Facilities through, among other things, maintenance of an efficient work environment for physicians as well as availability of facilities; and (iii) the Facilities' establishment and maintenance of strong relationships with major third-party payors in the geographic areas served. The case mix at each Facility is a function of the clinical specialties of the physicians and medical staff and is also dependent on the equipment and infrastructure at each Facility.

Non-controlling interests in the Facilities are indirectly owned, primarily by physicians practicing at the Facilities. Upon acquisition by the Corporation of indirect controlling interests in the SSHs located in Arkansas, Oklahoma, and South Dakota, the non-controlling interest holders were granted the right to exchange up to 14% (5% in the case of Arkansas Surgical Hospital) of the ownership interest in their respective Facilities for common shares of the Corporation. The liability associated with this derivative instrument is recorded on the consolidated balance sheet. To date, the non-controlling interest holders of one of the eligible Facilities have exercised portions of their exchangeable interests.

Summary of Facility Information as of March 31, 2025

	Arkansas Surgical Hospital ("ASH")	Oklahoma Spine Hospital ("OSH")	Sioux Falls Specialty Hospital ("SFSH")	The Surgery Center of Newport Coast ("SCNC")
Location	North Little Rock Arkansas	Oklahoma City Oklahoma	Sioux Falls South Dakota	Newport Beach California
Year Opened	2005	1999	1985	2004
Year Acquired by the Corporation	2012	2005	2004	2008
Ownership Interest	51.0%	64.0%	51.0%	51.0%
Non-controlling Interest	49.0%	36.0%	49.0%	49.0%
Exchangeable Interest	5.0%	1.0%	14.0%	-
Size	126,000 sq ft	61,000 sq ft	97,000 sq ft	7,000 sq ft
Operating/Procedure Rooms	13/2	7/2	15/1	3/0
Overnight Rooms	41[1]	25	33	-

[1] *Licensed for 47 beds.*

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information from Continuing Operations

Unaudited	Three Months Ended March 31,	
In thousands of U.S. dollars, except per share amounts and as indicated otherwise	**2025**	**2024[1]**
Facility service revenue	81,714	81,975
Operating expenses	68,713	68,950
Income from operations	13,001	13,025
Net income for the period from continuing operations	8,980	4,749
Attributable to:		
Owners of the Corporation [2]	3,728	(1)
Non-controlling interest [2]	5,252	4,750
Net income for the period from discontinued operations, net of tax	-	3,712
Earnings (loss) per share from continuing operations attributable to owners of the Corporation		
Basic	$0.17	($0.01)
Fully diluted	$0.17	($0.01)
EBITDA [3]	17,269	17,147
Cash available for distribution [3] [4]	C$ 9,091	C$ 9,506
Distributions [3]	C$ 1,752	C$ 1,970
Cash available for distribution per common share [3] [4]	C$ 0.410	C$ 0.387
Distributions per common share [3]	C$ 0.079	C$ 0.080
Payout ratio [3] [4]	19.3%	20.7%

(1) *The comparative results for the three-months ended March 31, 2024 include the results of continuing operations and discontinued operations. In accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, the results of discontinued operations for the prior period are presented separately in the Corporation's current period interim condensed consolidated statements of income and comprehensive income to provide a clear comparison.*

(2) *Net income from continuing operations attributable to owners of the Corporation fluctuates significantly between the periods due to variations in finance costs, primarily in the value of the exchangeable interest liability, and income taxes. These charges are incurred at the corporate level rather than at the Facility level. On the other hand, net income from continuing operations attributable to non-controlling interest represents the interest of the Facilities' non-controlling interest holders in the net income of the Facilities on a stand-alone basis and, therefore, does not vary as significantly between the periods.*

(3) *Non-IFRS financial measures. Please refer to Section 2 under the heading "Non-IFRS Financial Measures", Sections 5 and 6 under the heading "Reconciliation of net income for the period from continuing operations to EBITDA and Adjusted EBITDA", and Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures".*

(4) *Cash available for distribution, cash available for distribution per common share, and payout ratio are not restated for discontinued operations, but have been restated for market value adjustments on share-based compensation, and stock options expense.*

Selected Financial Information for the Three Months Ended March 31, 2025 compared to the Three Months Ended March 31, 2024

For the three months ended March 31, 2025, revenue from continuing operations of $81.7 million decreased by 0.3% from $82.0 million for the same period in 2024, mainly due to one less operating day in the current period compared to the same period last year, as well as the combined impact of case and payor mix, partly offset by higher surgical case volume.

EBITDA for the three months ended March 31, 2025 was $17.3 million or 21.1% of revenue from continuing operations compared to $17.1 million or 20.9% of revenue from continuing operations for the same period last year, mainly due to a decrease in operating expenses before depreciation and amortization which marginally exceeded the decline in revenue.

Net income from continuing operations for the three months ended March 31, 2025 was $9.0 million compared to net income from continuing operations of $4.7 million for the same period in 2024, with the increase mainly attributable to lower finance costs at the corporate level, driven by the variance in the change in value of exchangeable interest liability versus the prior period (refer to Section 5 “Consolidated Operating and Financial Review” of this MD&A under the heading “Change in Value of Exchangeable Interest Liability) and lower net interest expense.

Net income from discontinued operations, net of tax, for the three months ended March 31, 2024 of $3.7 million was reclassified out of continuing operations due to the sale of BHSH in 2024.

The Corporation generated cash available for distribution of Cdn$9.1 million for the three months ended March 31, 2025, representing a decrease of Cdn$0.4 million or 4.4% from Cdn$9.5 million for the same period in 2024. Distributions per common share decreased between the periods by Cdn$0.001 to Cdn$0.079, while the payout ratio was 19.3% for the three months ended March 31, 2025 compared to 20.7% for the same period last year. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures”.

5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

Continuing Operations for the Three Months Ended March 31, 2025

The following table and discussion compare operating and financial results from continuing operations of the Corporation for the three months ended March 31, 2025 to the three months ended March 31, 2024:

Unaudited	Three Months Ended March 31,			
In thousands of U.S. dollars, except per share amounts	**2025**	**2024**	**$ Change**	**% Change**
Revenue and other income				
Facility service revenue	81,714	81,975	(261)	(0.3%)
	81,714	**81,975**	**(261)**	**(0.3%)**
Operating expenses				
Salaries and benefits	22,418	21,749	669	3.1%
Drugs and supplies	27,474	27,946	(472)	(1.7%)
General and administrative expenses (1)	14,553	15,133	(580)	(3.8%)
Depreciation of property and equipment	1,660	1,687	(27)	(1.6%)
Depreciation of right-of-use assets	2,475	2,302	173	7.5%
Amortization of other intangibles	133	133	-	0.0%
	68,713	**68,950**	**(237)**	**(0.3%)**
Income from operations	**13,001**	**13,025**	**(24)**	**(0.2%)**
Finance costs				
Change in value of exchangeable interest liability	2,530	5,186	(2,656)	(51.2%)
Interest expense on exchangeable interest liability	1,700	2,048	(348)	(17.0%)
Interest expense, net of interest income	(18)	1,150	(1,168)	(101.6%)
Loss on foreign currency	130	43	87	202.3%
	4,342	**8,427**	**(4,085)**	**(48.5%)**
Income before income taxes	**8,659**	**4,598**	**4,061**	**88.3%**
Income tax recovery	(321)	(151)	(170)	(112.6%)
Net income for the period from continuing operations	**8,980**	**4,749**	**4,231**	**89.1%**
Attributable to:				
Owners of the Corporation	3,728	(1)	3,729	372,900.0%
Non-controlling interest	5,252	4,750	502	10.6%
Basic earnings (loss) per share attributable to owners of the Corporation	$0.17	($0.01)	0.18	1,800.0%
Fully diluted earnings (loss) per share attributable to owners of the Corporation	$0.17	($0.01)	0.18	1,800.0%
Reconciliation of net income for the period from continuing operations to EBITDA (2)				
Net income for the period from continuing operations	8,980	4,749	4,231	89.1%
Income tax recovery	(321)	(151)	(170)	(112.6%)
Finance costs	4,342	8,427	(4,085)	(48.5%)
Depreciation of property and equipment	1,660	1,687	(27)	(1.6%)
Depreciation of right-of-use assets	2,475	2,302	173	7.5%
Amortization of other intangibles	133	133	-	0.0%
EBITDA (2)	**17,269**	**17,147**	**122**	**0.7%**

(1) *General and administrative expenses include non-controllable, non-cash corporate level charges related to share-based compensation plans of $0.2 million for the three months ended March 31, 2025, and $0.5 million for the three months ended March 31, 2024.*

(2) *Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures.*

Revenue and Other Income

Unaudited	Three Months Ended March 31,			
In thousands of U.S. dollars	**2025**	**2024**	**$ Change**	**% Change**
ASH	23,043	22,507	536	2.4%
OSH	18,551	19,874	(1,323)	(6.7%)
SFSH	37,514	37,163	351	0.9%
SCNC	2,606	2,431	175	7.2%
Revenue and other income	**81,714**	**81,975**	**(261)**	**(0.3%)**

For the three months ended March 31, 2025, revenue decreased from the same period in 2024 by $0.3 million or 0.3%, mainly due to one less operating day in the current period compared to the same period last year, as well as the combined impact of case and payor mix ($0.6 million), partly offset by higher surgical case volume ($0.3 million).

Total surgical cases increased by 2.2%, as observation cases increased by 6.8%, and outpatient cases increased by 4.8%, but inpatient cases decreased by 17.0%. Surgical case volume was up at most Facilities, led by SFSH and SCNC. Surgical case volume increases by payor over the same period last year came predominantly from Medicare and Blue Cross Blue Shield, which increased by 4.4% and 2.3%, respectively. Pain management cases were down by 8.3% compared to the same period last year.

The above factors are reflected in each Facility's revenue as follows:

- ASH's revenue increased mainly due to payor rate increases, resulting in higher reimbursements per surgical case, along with higher surgical case volume. This was partly offset by a decrease in pain management cases, and case mix, which included lower acuity procedures.

- OSH's revenue decreased mainly due to lower surgical case volume, along with the combined impact of case and payor mix, resulting in lower reimbursements per surgical case, and a decrease in pain management cases.

- SFSH's revenue increased mainly due to higher surgical case volume, as well as the impact of case mix, which included higher acuity procedures. This was partly offset by payor mix, which included more government payors, and a decrease in pain management cases.

- SCNC's revenue increased mainly due to higher surgical volume, as well as the impact of payor mix. This was partly offset by case mix, which included lower acuity procedures.

Operating Expenses

For the three months ended March 31, 2025, operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses ("G&A"), depreciation of property and equipment, depreciation of right-of-use assets, and amortization of other intangibles (collectively "operating expenses"), decreased by $0.2 million or 0.3% from the same period last year to $68.7 million. As a percentage of revenue and other income, operating expenses remained unchanged from the same period a year earlier at 84.1%.

Unaudited	Three Months Ended March 31,					
In thousands of U.S. dollars	**2025**	**Percentage of Revenue**	**2024**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	18,439	80.0%	18,274	81.2%	165	0.9%
OSH	16,454	88.7%	17,500	88.1%	(1,046)	(6.0%)
SFSH	29,554	78.8%	28,608	77.0%	946	3.3%
SCNC	2,350	90.2%	2,356	96.9%	(6)	(0.3%)
MFC Nueterra ASCs	9	n/a	89	n/a	(80)	(89.9%)
Corporate	1,907	n/a	2,123	n/a	(216)	(10.2%)
Operating expenses	**68,713**	**84.1%**	**68,950**	**84.1%**	**(237)**	**(0.3%)**

Consolidated salaries and benefits increased by $0.7 million or 3.1%, primarily due to higher benefit costs from increased health plan utilization ($0.6 million), and increases in clinical and non-clinical salaries and wages ($0.4 million) as a result of annual merit increases and market wage pressures. This was partly offset by lower physician salaries ($0.3 million). As a percentage of revenue and other income, consolidated salaries and benefits increased to 27.4% from 26.5% a year earlier.

Consolidated drugs and supplies decreased by $0.5 million or 1.7%, primarily due to one less operating day in the current period compared to the same period last year, along with the impact of case mix ($0.3 million) which reflected lower acuity procedures and improved cost savings at certain Facilities, and higher vendor rebates ($0.3 million). This was partly offset by higher surgical case volume ($0.1 million). As a percentage of revenue and other income, the consolidated cost of drugs and supplies decreased to 33.6% from 34.1% a year earlier.

Consolidated G&A decreased by $0.6 million or 3.8%. The decrease in G&A was primarily due to lower corporate level costs related to share-based compensation plans driven by the smaller increase in the Corporation's share price in the current period as compared to the increase in the same period last year ($0.3 million), along with decreases in building and equipment rentals ($0.2 million) and costs for contracted services ($0.2 million). This was partly offset by an increase in repairs and maintenance expenses ($0.1 million). As a percentage of revenue and other income, consolidated G&A decreased to 17.8% from 18.5% a year earlier.

Consolidated depreciation of property and equipment remained consistent with the same period in 2024, as decreases from certain fixed assets being fully depreciated were mostly offset by the purchase of fixed assets. As a percentage of revenue and other income, consolidated depreciation of property and equipment decreased to 2.0% from 2.1% a year earlier.

Consolidated depreciation of right-of-use assets increased by $0.2 million or 7.5%, mainly due to new lease additions, partly offset by the expiration and termination of certain leases. As a percentage of revenue and other income, consolidated depreciation of right-of-use assets increased to 3.0% from 2.8% a year earlier.

Consolidated amortization of other intangibles remained consistent with the same period in 2024. As a percentage of revenue and other income, consolidated amortization of other intangibles remained unchanged from a year earlier at 0.2%.

Income from Operations

Consolidated income from continuing operations for the three months ended March 31, 2025 of $13.0 million was 0.2% lower than the same period last year, representing 15.9% of revenue and other income in both periods. This was mainly due to cost savings at the corporate level, mostly offset by lower income from operations at the Facilities as a result of the decrease in revenue.

Unaudited	Three Months Ended March 31,					
In thousands of U.S. dollars	**2025**	**Percentage of Revenue**	**2024**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	4,604	20.0%	4,233	18.8%	371	8.8%
OSH	2,097	11.3%	2,374	11.9%	(277)	(11.7%)
SFSH	7,960	21.2%	8,555	23.0%	(595)	(7.0%)
SCNC	256	9.8%	75	3.1%	181	241.3%
MFC Nueterra ASCs	(9)	n/a	(89)	n/a	80	89.9%
Corporate	(1,907)	n/a	(2,123)	n/a	216	10.2%
Income from operations	**13,001**	**15.9%**	**13,025**	**15.9%**	**(24)**	**(0.2%)**

Finance Costs

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, and re-measured at each reporting date, and the changes in fair value are included in net income from continuing operations for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the (i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest holders during the trailing twelve-month period ending on the reporting date, (ii) changes in the market price of the Corporation's common shares, and (iii) fluctuations of the value of the Canadian dollar against the U.S. dollar. The change in value of the exchangeable interest liability for the three months ended March 31, 2025 of $2.5 million decreased by $2.7 million from the same period in 2024, attributable to variations in all three factors.

The following table provides a calculation of the change in value of the exchangeable interest liability for the reporting periods:

In thousands of U.S. dollars, except as indicated otherwise	**March 31, 2025** *Unaudited*	**December 31, 2024**	**Change**	**March 31, 2024** *Unaudited*	**December 31, 2023**	**Change**
Number of common shares to be issued for exchangeable interest liability	3,601,975	3,621,847	(19,872)	5,922,297	5,913,560	8,737
Closing price of the Corporation's common shares	C$16.71	C$15.61	C$1.10	C$10.35	C$8.98	C$1.37
Closing exchange rate of U.S. dollar to Canadian dollar	$1.4388	$1.4385	$0.0003	$1.3539	$1.3247	$0.0292
Exchangeable interest liability	**41,833**	**39,303**	**2,530**	**45,273**	**40,087**	**5,186**

Interest Expense on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $0.3 million, driven by the variation in distributions from the Facilities between the reporting periods.

Interest Expense, Net of Interest Income

Interest expense, net of interest income, decreased by $1.2 million, primarily from higher interest income at the corporate level due to the higher average cash balance as a result of the cash proceeds received on the sale of BHSH in 2024, as well as lower corporate credit facility interest expense due to the outstanding balance being fully repaid in the fourth quarter of 2024.

Loss on Foreign Currency

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares are made in Canadian dollars. Foreign currency loss increased by $0.1 million due to the relative change in foreign exchange rates between the reporting periods.

Income Tax

Current and deferred tax components of the income tax recovery for the reporting periods are as follows:

Unaudited	Three Months Ended March 31,			
In thousands of U.S. dollars	**2025**	**2024**	**$ Change**	**% Change**
Current income tax expense	407	762	(355)	(46.6%)
Deferred income tax recovery	(728)	(913)	185	20.3%
Income tax recovery	**(321)**	**(151)**	**(170)**	**(112.6%)**

The decrease in current income tax expense versus last year was primarily due to lower income from operations at the Facilities. The decrease in deferred income tax recovery versus the prior year was mainly due to the impact of the change in the exchangeable interest liability.

Net Income from Continuing Operations

The $4.2 million increase in net income from continuing operations for the three months ended March 31, 2025 was mainly attributable to lower finance costs, driven by the variance in the change in value of exchangeable interest liability versus the prior period (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability") and lower net interest expense.

EBITDA

EBITDA for the three months ended March 31, 2025 of $17.3 million increased by $0.2 million from $17.1 million recorded in the same period last year, representing 21.1% of revenue and other income compared to 20.9% a year earlier, mainly due to a decrease in operating expenses before depreciation and amortization which marginally exceeded the decline in revenue. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income for the period from continuing operations to EBITDA".

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results from Continuing Operations

Unaudited	2025	2024				2023		
In thousands of U.S. dollars, except per share amounts	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue and other income								
Facility service revenue	81,714	91,077	76,821	81,656	81,975	92,084	79,178	83,984
Government stimulus income	-	-	11,957	-	-	-	-	-
	81,714	**91,077**	**88,778**	**81,656**	**81,975**	**92,084**	**79,178**	**83,984**
Operating expenses								
Salaries and benefits	22,418	24,355	22,182	22,180	21,749	23,245	21,639	21,922
Drugs and supplies	27,474	30,348	25,679	27,673	27,946	31,626	28,086	30,409
General and administrative expenses	14,553	15,178	15,315	15,026	15,133	14,826	15,254	16,147
Impairment of goodwill	-	2,265	-	-	-	-	-	-
Depreciation of property and equipment	1,660	1,637	1,670	1,670	1,687	1,694	1,719	1,810
Depreciation of right-of-use assets	2,475	2,589	2,363	2,360	2,302	2,382	2,503	2,567
Amortization of other intangibles	133	135	136	136	133	136	137	518
	68,713	**76,507**	**67,345**	**69,045**	**68,950**	**73,909**	**69,338**	**73,373**
Income from operations	**13,001**	**14,570**	**21,433**	**12,611**	**13,025**	**18,175**	**9,840**	**10,611**
Finance costs (income)								
Change in value of exchangeable interest liability	2,530	(19,464)	4,935	8,559	5,186	(1,277)	3,298	2,015
Interest expense on exchangeable interest liability	1,700	1,972	1,926	1,707	2,048	2,017	1,645	1,731
Interest expense, net of interest income	(18)	454	919	1,079	1,150	1,373	1,317	1,441
Impairment loss on loans receivable	-	-	-	-	-	-	786	-
Loss (gain) on foreign currency	130	(9)	14	11	43	(8)	28	10
	4,342	**(17,047)**	**7,794**	**11,356**	**8,427**	**2,105**	**7,074**	**5,197**
Non-operating (gains) losses								
Gain on sale of subsidiaries and equity investments	-	-	-	-	-	-	(2,487)	-
Share of equity loss in associates	-	-	-	-	-	-	320	-
	-	**-**	**-**	**-**	**-**	**-**	**(2,167)**	**-**
Income before income taxes	**8,659**	**31,617**	**13,639**	**1,255**	**4,598**	**16,070**	**4,933**	**5,414**
Income tax expense (recovery)	(321)	(4,413)	(347)	(774)	(151)	2,121	2,315	393
Net income for the period from continuing operations	**8,980**	**36,030**	**13,986**	**2,029**	**4,749**	**13,949**	**2,618**	**5,021**
Attributable to:								
Owners of the Corporation	3,728	29,560	5,608	(2,599)	(1)	7,818	(1,113)	1,321
Non-controlling interest	5,252	6,470	8,378	4,628	4,750	6,131	3,731	3,700
Earnings (loss) per share attributable to owners of the Corporation:								
Basic	$0.17	$1.27	$0.24	($0.11)	($0.01)	$0.32	($0.04)	$0.05
Fully diluted	$0.17	$0.59	$0.24	($0.11)	($0.01)	$0.29	($0.04)	$0.05
Reconciliation of net income for the period from continuing operations to EBITDA and Adjusted EBITDA (1)								
Net income for the period from continuing operations	8,980	36,030	13,986	2,029	4,749	13,949	2,618	5,021
Income tax expense (recovery)	(321)	(4,413)	(347)	(774)	(151)	2,121	2,315	393
Non-operating (gains) losses	-	-	-	-	-	-	(2,167)	-
Finance costs (income)	4,342	(17,047)	7,794	11,356	8,427	2,105	7,074	5,197
Depreciation of property and equipment	1,660	1,637	1,670	1,670	1,687	1,694	1,719	1,810
Depreciation of right-of-use assets	2,475	2,589	2,363	2,360	2,302	2,382	2,503	2,567
Amortization of other intangibles	133	135	136	136	133	136	137	518
EBITDA (1)	**17,269**	**18,931**	**25,602**	**16,777**	**17,147**	**22,387**	**14,199**	**15,506**
Impairment of goodwill	-	2,265	-	-	-	-	-	-
Adjusted EBITDA (1)	**17,269**	**21,196**	**25,602**	**16,777**	**17,147**	**22,387**	**14,199**	**15,506**

(1) *Non-IFRS financial measures. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures.*

During the last eight quarters, the following items have had a significant impact on the Corporation's financial results:

- Revenue varies directly in relation to the number of cases performed as well as to the type of cases performed and the payor. For example, revenue for orthopedic cases will typically be higher than ear, nose and throat cases and cases funded by Medicare or Medicaid will be lower than those paid for by private insurance. Changes in case volumes, case mix and payor mix are normal and expected due to the nature of the Corporation’s business. Surgical cases are mainly elective procedures and the volume of cases performed in any given period are subject to medical necessity and patient and physician preferences in scheduling (e.g., work schedules and vacations). The Corporation generally records higher revenue in the fourth quarter as many patients tend to seek medical procedures at the end of the year, primarily as a result of their inability to carry over unused insurance benefits into the following calendar year.

- As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and other stimulus legislation in response to the COVID-19 pandemic, the Facilities received financial assistance, from which the Facilities’ outstanding Paycheck Protection Program loans were recognized as government stimulus income in the third quarter of 2024 (refer to Section 3 of the annual MD&A under the heading “Government Stimulus”).
- The changes in operating expenses are generally consistent with fluctuations in case volumes and case mix. Operating expenses have also been impacted by costs related to SFSH’s accountable care organization (“ACO”), as well as a management agreement for SFSH’s orthopedic service line (refer to Section 12 of this MD&A under the heading “Related Party Transactions”).
- Since the fourth quarter of 2022, the Corporation has executed its plan to reduce overhead costs primarily through a reorganization of executive staff, as well as reductions across all other departments, resulting in significant savings in salaries and benefits, and G&A at the corporate level.
- Due to SCNC's underperformance, management assessed and recorded an impairment of goodwill in the fourth quarter of 2024.
- In addition, revenue and operating expenses have been impacted by the divestiture of the MFC Nueterra ASCs in 2023, and the sale of BHSH in the fourth quarter of 2024.
- The changes in the recorded value of the exchangeable interest liability have been driven by (i) the changes in the number of common shares issuable for the exchangeable interest liability, which are in turn driven by the distributions to the non-controlling interest holders during the trailing twelve-month period ending on the reporting date, (ii) the changes in the market price of the Corporation’s common shares, and (iii) the fluctuations of the value of the Canadian dollar against the U.S. dollar. During 2023, 2024 and 2025, the fluctuations in the change in value of the exchangeable interest liability were attributable to variations in all three factors, including the forfeiture of common shares to be issued for the exchangeable interest liability relating to BHSH’s non-controlling interest holders upon the sale of BHSH in the fourth quarter of 2024.
- The fluctuations in interest expense on the exchangeable interest liability are due to the variation in distributions from the Facilities between the reporting periods.
- The changes in impairment loss on loans receivable are mainly a result of re-evaluating the impairment loss allowance reserved on the loans receivable from associates at the end of each reporting period. The loans were fully impaired in the third quarter of 2023.
- The fluctuations in foreign currency have been driven by the movements of exchange rate of the Canadian dollar in relation to U.S. dollar between the reporting periods.
- Fluctuations in current income taxes have been driven by the changes in operating performance of the Facilities, the deductibility of corporate expenses, intercompany interest expense deductions, and taxable (deductible) foreign exchange gains (losses). Fluctuations in deferred income taxes have been driven primarily by the changes in the exchangeable interest liability and Canadian cumulative tax operating loss carryforwards, along with the impact of U.S. tax reform pursuant to the recent U.S. federal tax law changes.

7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

The following table presents the reconciliation of cash available for distribution to net cash provided by operating activities:

Unaudited *In thousands of U.S. dollars, except as indicated otherwise*		Three Months Ended March 31, **2025** **$**	 **2024**[1] **$**
NET CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**15,755**	**24,515**
Non-controlling interest in cash flows of the Facilities [2]		(6,676)	(8,837)
Interest expense on exchangeable interest liability [3]		1,700	2,048
Payment of lease liabilities [4]		(3,041)	(2,838)
Maintenance capital expenditures [5]		(653)	(773)
Difference between accrual-based amounts and actual cash flows related to interest and taxes [6]		(479)	(1,332)
Net changes in non-cash operating working capital [7]		386	(4,967)
Market value adjustments on share-based compensation [8]		190	527
Repayments of notes payable by the Facilities [9]		(848)	(1,294)
CASH AVAILABLE FOR DISTRIBUTION [10]	**USD**	**6,334**	**7,049**
	CDN	**9,091**	**9,506**
DISTRIBUTIONS	**CDN**	**1,752**	**1,970**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE [10] [11]	**CDN**	**$0.410**	**$0.387**
DISTRIBUTIONS PER COMMON SHARE [11]	**CDN**	**$0.079**	**$0.080**
PAYOUT RATIO [10]		**19.3%**	**20.7%**
Average exchange rate of Cdn$ to US$ for the period		1.4352	1.3486
Basic weighted average number of common shares outstanding		22,176,712	24,580,394

(1) *The comparative results for the three-months ended March 31, 2024 include the results of BHSH which was sold in the fourth quarter of 2024.*

(2) *Non-controlling interest in cash flows of the Facilities is deducted in determining cash available for distribution as distributions from the Facilities to the non-controlling interest holders are required to be made concurrently with distributions from the Facilities to the Corporation. This is calculated by multiplying the distributable cash flows from each Facility with the respective ownership share of the non-controlling interest holders.*

(3) *Interest expense on exchangeable interest liability represents a notional amount of interest expense deducted in the determination of net income attributable to owners of the Corporation. It is added back to determine cash available for distribution as it is a non-cash charge and is not distributable to the holders of the non-controlling interest. It is included in the Corporation's interim condensed consolidated statements of income and comprehensive income.*

(4) *Payment of lease liabilities represents rent payments on principal portions of lease liabilities and is deducted in determining cash available for distribution as this is a cash item included in cash flows from financing activities in the Corporation's interim condensed consolidated statements of cash flows.*

(5) *Maintenance capital expenditures at the Facility level reflect expenditures incurred to maintain the current operating capacities of the Facilities and are deducted in the calculation of cash available for distribution. Maintenance capital expenditures, together with major capital expenditures, comprise the purchase of property and equipment, which is included in cash flows from investing activities in the Corporation's interim condensed consolidated statements of cash flows.*

(6) *Cash flows from operating activities, as presented in the Corporation's interim condensed consolidated statements of cash flows, represent actual cash inflows and outflows, while calculation of cash available for distribution is based on the accrued amounts and, therefore, the difference between the accrual-based amounts and actual cash inflows and outflows related to interest, and income and withholding taxes is included in the table above.*

(7) *While changes in non-cash operating working capital are included in the calculation of net cash provided by operating activities in the Corporation's interim condensed consolidated statements of cash flows, they are not included in the calculation of cash available for distribution as they represent only temporary sources or uses of cash due to the differences in timing of recording revenue and corresponding expenses and actual receipts and outlays of cash. Such changes in non-cash operating working capital are financed from the available cash or credit facilities of the Facilities.*

(8) *Market value adjustments on share-based compensation represent non-controllable, non-cash charges related to share-based compensation plans included in general and administrative expenses which do not have a cash impact until the underlying share units vest. As a non-cash item, this expense is added back in the calculation of cash available for distribution. It is included in the Corporation's interim condensed consolidated statements of income and comprehensive income.*

(9) *Repayments of notes payable by the Facilities, which comprises of interest and principal repayments on non-revolving debt obligations, reflects contractual obligations of the Facilities and is deducted in the calculation of cash available for distribution. It is included in cash flows from financing activities in the Corporation's interim condensed consolidated statements of cash flows.*

(10) *Comparative figures for cash available for distribution, cash available for distribution per common share, and payout ratio have been restated for market value adjustments on share-based compensation, and stock options expense.*

(11) *Calculated based on the basic weighted average number of common shares outstanding.*

Cash available for distribution for the three months ended March 31, 2025 (Cdn$9.1 million) decreased by Cdn$0.4 million compared to the cash available for distribution for the same period last year (Cdn$9.5 million). On a per common share basis, cash available for distribution of Cdn$0.410 increased by Cdn$0.023, or 5.9% from the same period last year of Cdn$0.387. The distributions per common share of Cdn$0.079 decreased by Cdn$0.001, or 1.3% from the same period last year of Cdn$0.080, resulting in a payout ratio of 19.3% for the three months ended March 31, 2025 as compared to a payout ratio of 20.7% for the same period in 2024.

The Corporation's cash available for distribution is generated solely from the Facilities. The following table provides a reconciliation of cash generated at the Facility level to the Corporation's cash available for distribution:

	Three Months Ended March 31,	
Unaudited	**2025**	**2024[1]**
In thousands of U.S. dollars	**$**	**$**
Cash flows from the Facilities:		
Income before interest expense, depreciation and amortization	19,091	24,344
Debt service costs:		
Interest	(362)	(530)
Repayment of non-revolving debt	(849)	(1,294)
Maintenance capital expenditures	(653)	(773)
Payment of lease liabilities	(3,030)	(2,826)
Non-cash gain	(19)	-
Cash available for distribution at the Facility level	**14,178**	**18,921**
Non-controlling interest in cash available for distribution at the Facility level	(6,676)	(8,837)
Corporation's share of the cash available for distribution at the Facility level	**7,502**	**10,084**
Corporate expenses [2] [3]	(1,684)	(1,589)
Interest expense, net of interest income, at the corporate level [3]	923	(164)
Provision for current income taxes	(407)	(1,282)
Cash available for distribution [2]	**6,334**	**7,049**

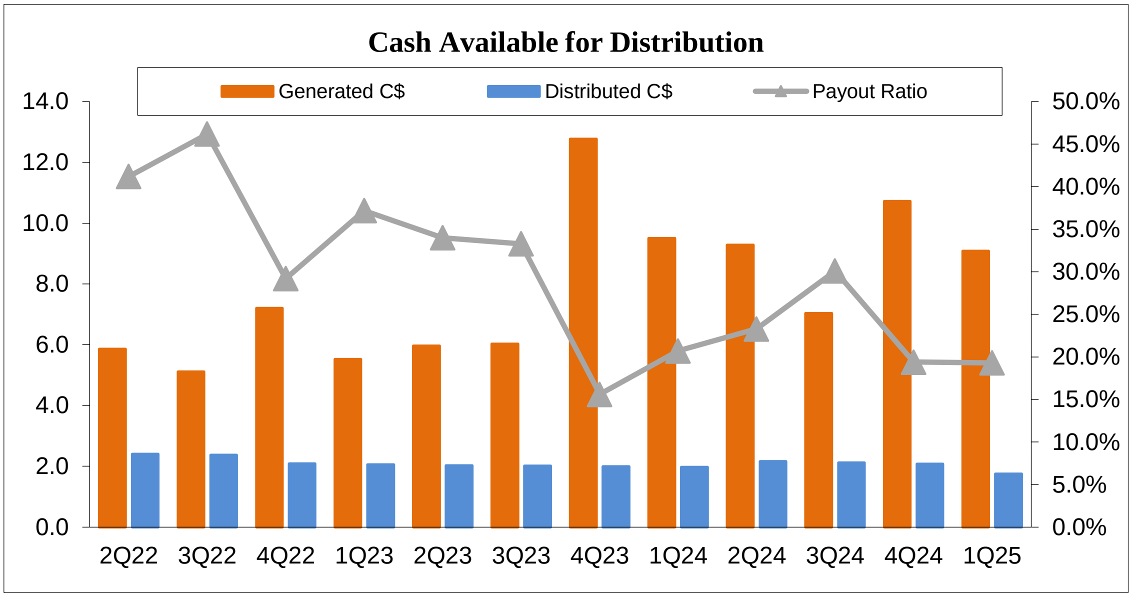
(1) *The comparative results for the three-months ended March 31, 2024 include the results of BHSH which was sold in the fourth quarter of 2024.*

(2) *Comparative figures for corporate expenses and cash available for distribution have been restated for market value adjustments on share-based compensation, and stock options expense.*

(3) *Comparative figures for corporate expenses and interest expense, net of interest income, at the corporate level have been adjusted for the correct classification of interest income at the corporate level and corporate credit facility stand-by fees, to match the disclosure in Note 12 to the financial statements.*

Compared to the three months ended March 31, 2024, the cash available for distribution in U.S. dollars for the same period this year decreased by $0.7 million or 10.1%, mainly due to lower income from Facilities, primarily as a result of the sale of BHSH in the fourth quarter of 2024, partly offset by lower corporate expenses driven mainly by higher interest income, along with lower debt service costs and maintenance capital expenditures at the Facilities, lower interest on the corporate credit facility, and lower current taxes.

The chart below shows the Corporation's cash available for distribution, distributions and payout ratios for the last twelve quarters:



8. OUTLOOK

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to the overall impact of the U.S. and local economies, ongoing changes in the healthcare industry, management strategies of the Corporation, and U.S. tax reform. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth under the heading "Risk Factors" in the annual MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

The Economy

Management's expectations could be impacted by the general state of the U.S. economy. Interest rate changes, as well as consumer, business and government spending are all factors that may inadvertently impact the Corporation, including the increased likelihood of state and federal spending cuts under the new U.S. administration. There is also uncertainty with respect to U.S. trade policies, which could increase supply costs and lead to supply disruptions or shortages, if tariffs or other protective measures are enacted. The strength of the local economies of the areas served by the Corporation's Facilities is an important factor in the Corporation's outlook.

Healthcare Industry

While impossible to currently quantify, the potential modification of the *Patient Protection and Affordable Care Act* ("PPACA"), demographic changes and growing healthcare costs present numerous challenges and opportunities, including:

- the challenge of continuing pressure on reimbursement levels from U.S. government-funded plans (Medicare, Medicaid and similar plans) and private insurance companies, combined with the increasing share of case volume that such plans represent;

- the opportunity for additional case volumes arising from ownership of, and participation in, ACOs and the related challenge of payor mix shifting to Medicare plans;
- the opportunity arising from reimbursement incentives which reward healthcare entities that meet specified quality and operational goals and operate in the most efficient and cost-effective manner; and
- an increased demand for services provided by the Corporation's Facilities due to the increasing average age and life expectancy of the population in our existing markets, population growth in the areas we serve, and advances in science and technology.

Changes in the U.S. federal government's political priorities could have potential implications on the healthcare industry, including but not limited to potential modifications to the PPACA, which could result in changes to healthcare coverage including case volume and reimbursement rates. The likelihood of a repeal of the PPACA has increased with the new U.S. administration, while proposals for spending cuts could potentially impact Medicaid and other government-funded plans, if enacted. There is also a risk that lawmakers could advance legislation to impose site-neutral payments to reimburse certain outpatient procedures at lower rates regardless of surgical procedure setting.

Planned import tariffs announced by the new U.S. administration against international trading partners could lead to significant price increases for certain implants, drugs, and medical supplies, and could further impact the supply chain with increased lead times, disruptions, and shortages. The impact could also intensify if further or reciprocal tariffs are implemented.

Hospitals throughout the U.S. continue to face a shortage of nurses and other healthcare workers, impacting the ability of hospitals to operate at full capacity. The shortage has led hospitals, including the Facilities, to accelerate their hiring processes and offer enhanced salary and benefit packages to attract and retain staff. The full duration and impact of this shortage is indeterminable at this time.

On September 29, 2024, Baxter International Inc. ("Baxter"), the leading supplier of IV fluids to healthcare providers in the U.S., announced that its manufacturing facility in North Carolina was affected by flooding due to the impact of Hurricane Helene, resulting in the facility being temporarily closed for production. As a result, Baxter restricted its supply of certain IV fluids to 60% of normal allocation levels for most U.S. healthcare providers.

Baxter worked with the U.S. government to mitigate supply disruption to healthcare providers, including bringing in supplies from overseas. Other manufacturers of IV fluids also ramped up production to help cover the shortage. Baxter returned to a range between 90% and 100% of normal allocation levels for certain IV fluids by the end of 2024. On January 28, 2025, Baxter announced that IV fluids production had been restarted on all manufacturing lines at its North Carolina facility impacted by Hurricane Helene.

The Facilities acted quickly to implement conservation measures and also procure IV fluids from alternative suppliers, albeit at a premium. Despite these efforts, certain Facilities faced a shortfall of IV fluids, resulting in the deferment or cancelation of certain surgical procedures in the fourth quarter of 2024. Although the overall shortage of IV fluids did carry into 2025, it was fully resolved in March 2025, as production capacity was fully restored, and allocation returned to normal levels for most IV fluids.

Management Strategies

Management is committed to increasing shareholder value, primarily through continued organic growth at its current Facilities. On September 13, 2022, the Corporation announced that it had made a determination to shift its focus away from deploying a growth strategy through acquisitions. This change in corporate strategy included the following:

- suspension of acquisitions;
- divestiture of non-core assets;
- pursuit of overhead cost reductions; and
- evaluation and implementation of strategies to return capital to its shareholders.

In collaboration with local management and physicians, management will continue to differentiate and grow the Corporation's Facilities by:

- maintaining service lines of the highest quality;
- physician development, including continued recruitment and retention of physicians, based on community needs;
- expanding the complement of service offerings at the Facilities;
- expansion of ancillary businesses at the SSHs, within existing markets; and
- sharing and implementing best practices and cost reduction strategies, with emphasis on supply chain and implant costs.

Management will maintain its emphasis on continuation of these strategies, combined with a strong balance sheet, an experienced management team and continuing identification of suitable accretive opportunities to enhance the Corporation's operating performance.

U.S. Tax Reform

Pursuant to the *Tax Cuts and Jobs Act of 2017* ("TCJA"), MFA's deductions attributable to the interest expense on the promissory note (the interest paid by MFA on all debt, including the MFA promissory note, less its interest income) was limited to 30% of adjusted taxable income, beginning with tax year 2022. Any disallowed interest expense may be carried forward to future years. This limitation applies to newly issued loans as well as those originated before 2018. Moreover, other limitations on the deductibility of interest under U.S. federal income tax laws, potentially including limitations applicable to certain high-yield debt obligations, could apply under certain circumstances to defer and/or eliminate all or a portion of the interest deduction that MFA would otherwise be entitled to with respect to interest on such indebtedness.

Also, as part of the TCJA, capital outlays are no longer eligible for 100% bonus depreciation. Beginning in 2023, bonus was limited to 80%, then 60% in 2024, after which eligibility will be further reduced to 40% in 2025, 20% in 2026, and 0% in 2027. At the end of 2025, a significant portion of the TCJA is set to expire. Proposals have been introduced by the new U.S. administration suggesting a return to 100% bonus depreciation along with a reduction in the corporate income tax rate from 21% to 20%.

9. LIQUIDITY AND CAPITAL RESOURCES

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to cash flows and future contractual payments. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth under the heading "Risk Factors" in the annual MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

Cash Balances

The Corporation's cash and cash equivalents balances are as follows:

Unaudited *In thousands of U.S. dollars*	March 31, 2025	December 31, 2024
Cash and cash equivalents at the Facility level	12,270	13,756
Cash and cash equivalents at the corporate level	53,454	94,740
Cash and cash equivalents	**65,724**	**108,496**

Cash Flow Activity

Cash Flow

Unaudited	Three Months Ended March 31,			
In thousands of U.S. dollars	**2025**	**2024**	**$ Change**	**% Change**
Cash provided by operating activities	15,755	24,515	(8,760)	(35.7%)
Cash used in investing activities	(785)	(1,772)	987	55.7%
Cash used in financing activities	(57,612)	(21,159)	(36,453)	(172.3%)
(Decrease) increase in cash and cash equivalents	**(42,642)**	**1,584**	**(44,226)**	**(2,792.0%)**
Effect of exchange rate fluctuations on cash balances held	(130)	(43)	(87)	(202.3%)
Cash and cash equivalents, beginning of the period	108,496	24,113	84,383	349.9%
Cash and cash equivalents, end of the period	**65,724**	**25,654**	**40,070**	**156.2%**

The Corporation expects to fund operations with cash derived from operating activities. Deficiencies arising from short-term working capital requirements and capital expenditures may be financed on a short-term basis with bank indebtedness, funds available from the corporate credit facility, as well as lines of credit at the Facility level, or on a permanent basis with offerings of securities of the Corporation. Negative changes in the general state of the U.S. economy could affect the Corporation's liquidity by reducing cash generated from operating activities or by limiting access to short-term financing as a result of tightening credit markets.

Operating Activities and Working Capital

Cash from operating activities in the three months ended March 31, 2025 decreased by $8.8 million compared to the same period in 2024, primarily due to lower income from the Facilities' operations as a result of the sale of BHSH in the fourth quarter of 2024, and a reduction in non-cash operating working capital.

As of March 31, 2025, the Corporation had consolidated net working capital of $35.9 million compared to $76.4 million as of December 31, 2024. The change in consolidated net working capital was mainly due to the completion of the substantial issuer bid in the current period, resulting in a decrease in cash and cash equivalents. The level of working capital, including financing required to cover any deficiencies, is dependent on the operating performance of the Facilities and fluctuates from period to period.

As of March 31, 2025, accounts receivable were $39.7 million (December 31, 2024: $45.5 million), accounts payable and accrued liabilities totaled $30.7 million (December 31, 2024: $37.7 million), total assets were $293.8 million (December 31, 2024: $346.3 million) and total long-term liabilities, excluding exchangeable interest liability, were $67.2 million (December 31, 2024: $70.6 million).

Investing Activities

The $1.0 million decrease in cash used in investing activities for the three months ended March 31, 2025 compared to the same period in 2024 was primarily due to a decrease in purchases of property and equipment.

Financing Activities

The $36.5 million increase in cash used in financing activities for the three months ended March 31, 2025 was mainly due to the completion of the substantial issuer bid ($43.7 million), along with the increase in purchase of common shares under normal course issuer bids ($0.3 million), and an increase in payment of lease liabilities ($0.2 million), partly offset by lower net repayments of credit facilities and other borrowings at both the Facility and corporate levels ($6.8 million), and a decrease in Facility distributions to non-controlling interest ($0.9 million).

The Facilities have available credit facilities in place in the aggregate amount of $26.9 million, of which $8.3 million was drawn as of March 31, 2025. The balances available under the credit facilities, combined with cash and cash equivalents as of March 31, 2025, are available to manage the Facilities' accounts receivable, supply inventory and other short-term cash requirements.

The partnership or operating agreements governing each of the respective Facilities do not permit the Corporation to access the assets of the Facilities to settle the liabilities of other subsidiaries of the Corporation, and the Facilities have no obligation to (and could not, without the approval of the holders of the non-controlling interest) take any steps to settle the liabilities of the Corporation or its other subsidiaries.

The Corporation has in place a $50.0 million line of credit with a Canadian chartered bank which matures on August 31, 2025 ("Credit Facility"). The Credit Facility can be used for general corporate purposes, including working capital and capital expenditures, and/or repurchase of the Corporation's common shares. As of March 31, 2025, no amount remained outstanding for the Credit Facility. As of March 31, 2025 and 2024, the Corporation was in compliance with all of its debt covenants.

Contractual Obligations

The mandatory repayments under the credit facilities and other contractual obligations and commitments including expected interest payments, on a non-discounted basis, as of March 31, 2025, are as follows:

Unaudited		Future payments (including principal and interest)				
In thousands of U.S. dollars **Contractual Obligations**	**Carrying values at March 31, 2025 $**	**Total $**	**Less than 1 year $**	**2-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	1,218	1,218	1,218	-	-	-
Accounts payable	13,410	13,410	13,410	-	-	-
Accrued liabilities	17,287	17,287	17,287	-	-	-
Obligation for purchase of common shares	14,910	14,910	14,910	-	-	-
Facilities' revolving credit facilities	8,304	8,503	7,138	1,365	-	-
Notes payable	25,071	28,381	4,454	6,372	17,555	-
Lease liabilities	37,731	43,369	10,557	16,086	12,290	4,436
Total contractual obligations	**117,931**	**127,078**	**68,974**	**23,823**	**29,845**	**4,436**

The Corporation anticipates renewing, extending, repaying or replacing its credit facilities that are due over the next twelve months and expects that cash flows from operations and working capital will be adequate to meet future payments on other contractual obligations over the next twelve months.

10. SHARE CAPITAL AND DIVIDENDS

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to the Corporation's expected payment of dividends. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk *factors set forth under the heading "Risk Factors" in the annual MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.*

The following table summarizes the outstanding number of stock options as of March 31, 2025:

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

Outstanding options (the "Options") vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of March 31, 2025, all of the Options are vested.

As of March 31, 2025, the Corporation had 19,466,849 common shares outstanding.

Normal Course Issuer Bids

The Corporation has a normal course issuer bid for up to 2,339,066 of its common shares in effect from December 1, 2024 to November 30, 2025. During the three months ended March 31, 2025, the Corporation purchased 182,600 of its common shares for a total consideration of $2.0 million from the open market under this normal course issuer bid. During the three months ended March 31, 2024, the Corporation purchased 253,900 of its common shares for a total consideration of $1.8 million from the open market under a previous normal course issuer bid.

The purchases under the normal course issuer bids include applicable buyback taxes. All common shares acquired under the normal course issuer bids were cancelled.

Substantial Issuer Bid

On March 11, 2025, the Corporation completed a substantial issuer bid, by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Corporation (the "Offer"). The Corporation purchased and cancelled 3,374,313 of its common shares at a price of C$18.00 per common share under the Offer, representing an aggregate purchase price of $43.1 million, including applicable buyback taxes, or approximately 14.7% of the Corporation's issued and outstanding common shares before giving effect to the Offer. For the three months ended March 31, 2025, the Corporation incurred transaction costs related to the Offer of $0.6 million which have been recorded against share capital.

Dividends

Dividend declarations are determined based on periodic reviews of the Corporation's earnings, capital expenditures and related cash flows. Such declarations take into account that the cash generated in the period is to be distributed after considering (i) debt service obligations, (ii) other expense and tax obligations, (iii) reasonable reserves for working capital and capital expenditures, and (iv) financial flexibility. Cash distributions declared in the period from January 1, 2025 to March 31, 2025 totaled Cdn$0.0900 per common share.

Dividend Reinvestment and Share Purchase Plan

The Corporation has a Dividend Reinvestment and Share Purchase Plan which allows shareholders resident in Canada to automatically re-invest, in a cost-effective manner, the cash dividends on their common shares into additional common shares of the Corporation.

11. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the interim condensed consolidated balance sheet as of March 31, 2025 consist of cash and cash equivalents, accounts receivable, dividends payable, accounts payable, accrued liabilities, obligation for purchase of common shares, borrowings (including long-term debt) and exchangeable interest liability.

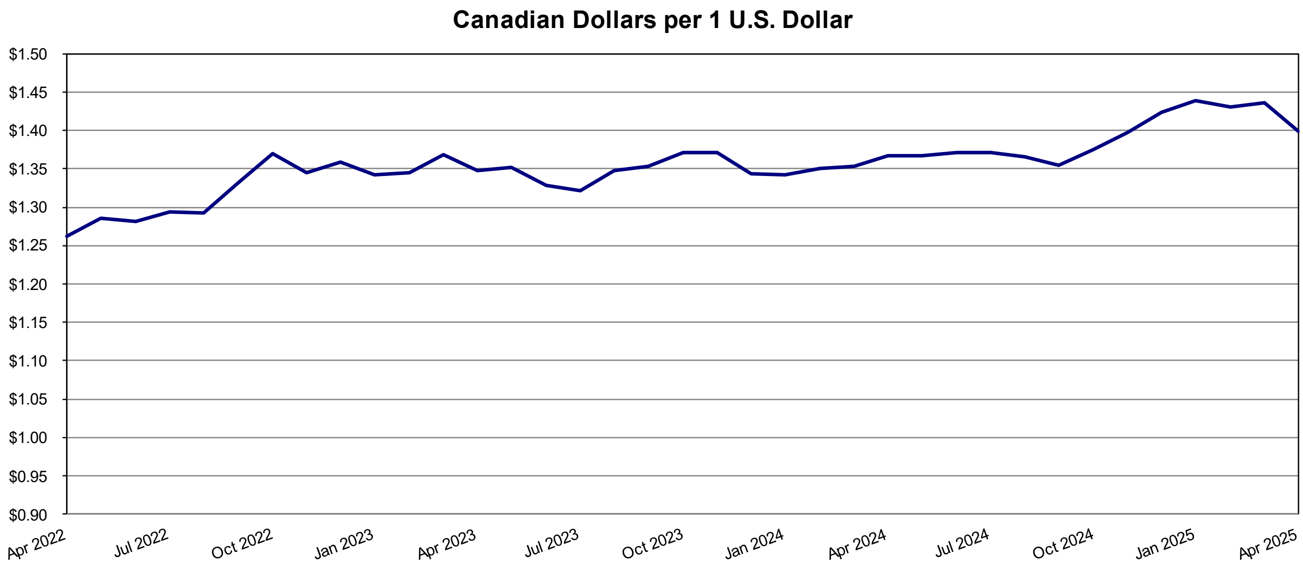
The fair value of the exchangeable interest liability is determined based on the closing trading price of the Corporation's common share price at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these instruments bear interest at rates comparable to current market rates. The fair values of all other financial instruments of the Corporation approximate their carrying values due to the short-term nature of these instruments.

Foreign Exchange Risk

The Facilities derive revenue, incur expenses and make distributions to their owners, including the Corporation, in U.S. dollars. The Corporation pays dividends to common shareholders and incurs a portion of its expenses in Canadian dollars. The amounts of distributions from the Facilities to their owners, including the Corporation and non-controlling interest holders, are dependent on the results of the operations and cash flows generated by the Facilities in any particular period.

Strengthening of the Canadian dollar against the U.S. dollar negatively impacts currency translation differences with respect to the funds available for the Corporation's Canadian dollar denominated dividend and interest payments and expenses. A weakening Canadian currency in relation to U.S. currency has the opposite effect.

The graph below shows the movement of the monthly average exchange rates between Canadian and U.S. dollars since April 2022:



The Corporation may, from time to time, enter into foreign exchange forward contracts dependent upon actual or anticipated company performance and current market conditions. As of March 31, 2025, the Corporation did not hold any foreign exchange forward contracts.

Credit Risk

Cash and cash equivalents are held with highly-rated and reputable financial institutions in the U.S. and Canada, with minimal credit risk.

The substantial portion of the Corporation's accounts receivable balance is with U.S. governmental payors and health insurance companies which are assessed as having a low risk of default and is consistent with the Facilities' history with these payors. Management reviews reimbursement rates and aging of the accounts receivable to monitor its credit risk exposure. On an ongoing basis, management assesses the circumstances affecting the recoverability of its accounts receivable and adjusts allowances based on changes in those factors. Actual bad debts for a trailing period are compared with the allowance to support the estimate of recoverability. Considerations related to historical experience are also factored into the valuation of the current period accounts receivable.

From time to time, the Corporation may enter into foreign exchange forward contracts and may place excess funds for investment with certain financial institutions. Investment of excess funds is guided by the investment policy of the Corporation that, among other things, (i) prescribes the eligible types of investments and (ii) establishes limits on the amounts that can be invested with any one financial institution.

Interest Rate Risk

The Corporation and the Facilities are exposed to interest rate fluctuations which can impact their borrowing costs. The Facilities use floating rate credit facilities for operating lines of credit that fund short-term working capital needs and use fixed rate debt to fund investments and capital expenditures.

Share Price Risk

The Corporation's exchangeable interest liability is measured on quoted market prices of its common shares in active markets and, therefore, the Corporation is exposed to variability in net income as prices change. Share price risk includes the impact of foreign exchange because common shares are quoted in Canadian dollars. The Corporation does not have any hedges against price risk.

Liquidity Risk

Liquidity risk is the risk that the Corporation, including its Facilities, will not be able to meet its financial obligations as they become due. The Corporation manages liquidity risk through the management of its capital structure and financial leverage. The Corporation also manages liquidity risk by continuously monitoring actual and projected cash flows and by taking into account the receipts and maturity profile of financial assets and liabilities. The board of directors of the Corporation reviews and approves operating and capital budgets, as well as any material transactions outside the ordinary course of business.

12. RELATED PARTY TRANSACTIONS

Dr. Reza Shahim, who resigned from his role as a member of the Corporation's board of directors on March 27, 2025, 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 three months ended March 31, 2025 of $1.1 million (March 31, 2024: $1.1 million).

Other Transactions

Certain Facilities routinely enter into transactions with related parties for the provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

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 three such individuals perform the duties of Medical Director at their respective Facilities and are compensated in recognition of their contribution to the Facilities. Also, Dr. R. Blake Curd, a physician with a non-controlling interest in SFSH, is its Chief Executive Officer and the Chief Medical Officer of the Corporation.

SFSH has a 50% ownership share in an ACO through a wholly-owned subsidiary that also provides management services to the ACO. The ACO was approved for participation in the Medicare Shared Savings Program, which is an incentive program established under the provisions of the PPACA. As one of the initiatives of the ACO, SFSH entered into an agreement with Great Plains Surgical, LLC ("Great Plains"), an entity controlled by certain indirect non-controlling owners of SFSH, for the provision of management services in relation to the orthopedic service line at SFSH to improve the quality of services provided and realize savings on implants and other supplies used in that service line. In addition to the payment of fees for providing management of the orthopedic service line, Great Plains is entitled to receive performance payments for realized cost savings and the attainment of quality levels.

The following is a summary of transactions at each Facility with their respective related parties during the reporting periods:

Unaudited *In thousands of U.S. dollars*		**Three Months Ended March 31,**	
Entity	**Nature of services or goods received**	**2025** **$**	**2024** **$**
ASH	Lease of hospital building and office space, and physician clinic services.	937	926
OSH	Lease of hospital building and office space.	657	657
SFSH	Provision of management services in relation to orthopedic service line and ACO, anesthesia services, billing and coding services, physical and occupational therapy services, lithotripter services, facility and related equipment, and lease of urgent care building.	3,371	3,316
Total		**4,965**	**4,899**

13. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The Corporation estimates certain amounts reflected in its financial statements based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes. Note 21.23 to the annual financial statements details significant accounting judgments and estimates used in the preparation of the financial statements.

The accounting estimates discussed below are highlighted because they require difficult, subjective, and complex management judgments. The Corporation believes that each of its assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome.

Revenue

Significant management judgment is involved in applying the portfolio approach to major payor classes to estimate the explicit and implicit price concessions. Estimates of explicit price concessions are based on contractual agreements, discount policies and historical experience. Estimates of implicit price concessions are based on historical collection experience.

Allowance for Non-Collectible Receivable Balances

The Facilities maintain an allowance for non-collectible receivable balances for estimated losses resulting from the inability to collect on its accounts receivable. Estimation of allowance for non-collectible receivable balances involves uncertainty about future collections which could differ from the original estimates. The allowance for non-collectible receivable balances is subject to change as general economic, industry and customer specific conditions change.

Impairment of Non-Financial Assets

Non-financial assets that have an indefinite useful life, such as goodwill, certain trade names and certain hospital operating licenses, 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.

The methodology used to test for impairment includes significant judgment, estimates, and assumptions. Impairment exists when the carrying amount of an asset or cash-generating unit ("CGU") exceeds its recoverable amount, which is the higher of its value in use ("VIU") and fair value less costs of disposal ("FVLCD"). The two approaches are as follows: 1) VIU approach – the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, and 2) FVLCD approach – the trailing twelve months EBITDA multiplied by a market multiple relevant to the CGU. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses, cash flows, discount rates, and market multiples at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature, impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Management has identified four CGUs for which impairment testing is performed annually and if a triggering event has occurred requiring an impairment test to be completed. The Facilities represent subsidiary operations which are independent of each other, and are therefore identified as separate CGUs.

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing property and equipment for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and indefinite life intangible assets are tested for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

Factors considered by management in determining a triggering event include: deterioration in market and economic conditions, volatility in the financial markets causing declines in the Corporation's share price, increases in the Corporation's weighted-average cost of capital, changes in valuation multiples, changes to healthcare legislation in the United States both federally and in the jurisdictions in which the Facilities operate, changes to the physician complement at the Facilities, decreases in expected future reimbursement rates, declining patient referrals, physical conditions of facilities and equipment, and increased costs of inputs, such as drugs, supplies, and labour.

When considered significant, management incorporates changes to these factors in its estimated future cash flows to assess the impact on the recoverable amount of its non-financial assets.

Management calculates the recoverable amount of each CGU using EBITDA specific to each CGU by a multiple determined using market data, such as EBITDA to market capitalization ratios of comparable publicly traded companies and recent prices for capital transactions within the industry. Management has estimated cost to dispose to be 1% of the fair value of the CGUs, based on recent market data. To assess reasonableness of recoverable amounts, management reconciles the recoverable amounts of its CGUs to the enterprise value of the Corporation as of the reporting date based on (i) the market capitalization of the outstanding common shares, and (ii) the Corporation's portion of the Facilities' long-term debt and lease liabilities, less (iii) cash on hand.

Management performed an assessment of the impairment indicators mentioned above as of March 31, 2025, and determined that there has been no impairment of non-financial assets, including goodwill and other intangibles.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of deferred taxable income. The Corporation's income tax assets and liabilities are based on interpretations of income tax legislation across various jurisdictions in Canada and the United States. The Corporation's effective tax rate can change from year to year based on the mix of income among different jurisdictions, changes in tax laws in these jurisdictions, and changes in the estimated value of deferred tax assets and liabilities. The Corporation's income tax expense reflects an estimate of the cash taxes the Corporation is expected to pay for the current year and a provision for changes arising in the values of deferred tax assets and liabilities during the year. The carrying value of these assets and liabilities is impacted by factors such as accounting estimates inherent in these balances, management's expectations about future operating results, and previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authorities. Such differences in interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective legal entity's domicile. On a regular basis, management assesses the likelihood of recovering value from deferred tax assets, such as loss carryforwards, as well as from the depreciation of capital assets, and adjusts the tax provision accordingly.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be used. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax-planning strategies. If management's estimates or assumptions change from those used in current valuation, management may be required to recognize an adjustment in future periods that would increase or decrease deferred income tax asset or liability and increase or decrease income tax expense.

14. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the financial information published by the Corporation. In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have certified that the quarterly filings fairly present in all material respects the financial condition, results of operations and cash flows and have also certified regarding controls as described below.

Under the supervision of, and with the participation of the CEO and the CFO, management has designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Corporation, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities for the period in which the annual and interim filings of the Corporation are being prepared, and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

In addition to DC&P, under the supervision of, and with the participation of the CEO and the CFO, management has designed internal controls over financial reporting ("ICFR") using the 2013 Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS Accounting Standards.

There have been no changes in the Corporation's ICFR during the period beginning on January 1, 2025 and ending on March 31, 2025, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

15. RISK FACTORS

The Corporation's annual MD&A contains a summary of risk factors pertaining to the Corporation, which is qualified in its entirety by reference to, and must be read in conjunction with the detailed information appearing in the Corporation's most recently filed annual information form available on SEDAR+ at www.sedarplus.ca. There have been no changes in the nature or the number of risk factors pertaining to the Corporation since the date of the most recently filed annual information form (March 28, 2025). The disclosures in this MD&A are subject to the risk factors outlined in those materials.

16. NEW AND REVISED IFRS ACCOUNTING STANDARDS NOT YET ADOPTED

The Corporation has not adopted certain new and revised IFRS Accounting Standards, as detailed in Note 21.24 to the annual financial statements, that also apply to the current period financial statements. The Corporation continues to assess the impact of the adoption of these new and revised IFRS Accounting Standards on the financial statements in future periods. There are no other new and revised IFRS Accounting Standards that have been issued but not yet adopted that would be expected to have a material impact on the Corporation.

Interim Condensed Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

For the three months ended March 31, 2025
(Unaudited)
(In U.S. dollars)

TABLE OF CONTENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MEDICAL FACILITIES CORPORATION

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

	Note	March 31, 2025 $ (Unaudited)	December 31, 2024 $
ASSETS			
Current assets			
Cash and cash equivalents		65,724	108,496
Accounts receivable		39,682	45,468
Supply inventory		6,104	5,805
Prepaid expenses and other receivables		4,300	5,479
Income tax receivable		138	87
Total current assets		**115,948**	**165,335**
Non-current assets			
Deferred income tax asset		16	129
Property and equipment		49,647	50,522
Right-of-use assets		30,541	32,482
Goodwill		90,600	90,600
Other intangibles		7,093	7,226
Total non-current assets		**177,897**	**180,959**
TOTAL ASSETS		**293,845**	**346,294**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		1,218	1,441
Accounts payable		13,410	16,940
Accrued liabilities		17,287	20,809
Income tax payable		14,254	13,766
Obligation for purchase of common shares	8	14,910	16,694
Current portion of long-term debt		10,273	10,390
Current portion of lease liabilities		8,708	8,909
Total current liabilities		**80,060**	**88,949**
Non-current liabilities			
Long-term debt		23,102	23,833
Lease liabilities		29,023	30,805
Deferred income tax liability		15,111	15,952
Exchangeable interest liability		41,833	39,303
Total non-current liabilities		**109,069**	**109,893**
Total liabilities		**189,129**	**198,842**
Equity			
Share capital		272,926	316,927
Contributed surplus		470	470
Accumulated deficit		(192,868)	(195,378)
Equity attributable to owners of the Corporation		**80,528**	**122,019**
Non-controlling interest		24,188	25,433
Total equity		**104,716**	**147,452**
TOTAL LIABILITIES AND EQUITY		**293,845**	**346,294**

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

MEDICAL FACILITIES CORPORATION

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

		Attributable to Owners of the Corporation				Non-controlling Interest	Total Equity
	Note	Share Capital $	Contributed Surplus $	Accumulated Deficit $	Total $	$	$
2025							
Balance at January 1, 2025		316,927	470	(195,378)	122,019	25,433	147,452
Net income and comprehensive income for the period		-	-	3,728	3,728	5,252	8,980
Dividends to owners of the Corporation		-	-	(1,218)	(1,218)	-	(1,218)
Distributions to non-controlling interest		-	-	-	-	(6,497)	(6,497)
Purchase of common shares under a normal course issuer bid	6	(2,036)	-	-	(2,036)	-	(2,036)
Purchase of common shares under a substantial issuer bid	7	(43,749)	-	-	(43,749)	-	(43,749)
Change in obligation for purchase of common shares	8	1,784	-	-	1,784	-	1,784
Balance at March 31, 2025		**272,926**	**470**	**(192,868)**	**80,528**	**24,188**	**104,716**
2024							
Balance at January 1, 2024		348,099	716	(262,827)	85,988	32,315	118,303
Net income and comprehensive income for the period		-	-	1,770	1,770	6,691	8,461
Stock options expense	15.1	-	14	-	14	-	14
Dividends to owners of the Corporation		-	-	(1,455)	(1,455)	-	(1,455)
Distributions to non-controlling interest		-	-	-	-	(7,357)	(7,357)
Purchase of common shares under a normal course issuer bid	6	(1,766)	-	-	(1,766)	-	(1,766)
Change in obligation for purchase of common shares	8	(7,557)	-	-	(7,557)	-	(7,557)
Balance at March 31, 2024		**338,776**	**730**	**(262,512)**	**76,994**	**31,649**	**108,643**

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)

		Three Months Ended March 31,	
	Note	2025 $	2024[1] $
Revenue and other income			
Facility service revenue		81,714	81,975
		81,714	**81,975**
Operating expenses			
Salaries and benefits		22,418	21,749
Drugs and supplies		27,474	27,946
General and administrative expenses		14,553	15,133
Depreciation of property and equipment		1,660	1,687
Depreciation of right-of-use assets		2,475	2,302
Amortization of other intangibles		133	133
		68,713	**68,950**
Income from operations		**13,001**	**13,025**
Finance costs			
Change in value of exchangeable interest liability		2,530	5,186
Interest expense on exchangeable interest liability		1,700	2,048
Interest expense, net of interest income	12	(18)	1,150
Loss on foreign currency		130	43
		4,342	**8,427**
Income before income taxes		**8,659**	**4,598**
Income tax recovery	11	(321)	(151)
Net income for the period from continuing operations		**8,980**	**4,749**
Discontinued operations			
Net income for the period from discontinued operations, net of tax	4.1	-	3,712
Net income and comprehensive income for the period		**8,980**	**8,461**
Attributable to:			
Owners of the Corporation		3,728	1,770
Non-controlling interest		5,252	6,691
		8,980	**8,461**
Earnings (loss) per share attributable to owners of the Corporation			
From continuing and discontinued operations			
Basic	5	$ 0.17	$ 0.07
Fully diluted	5	$ 0.17	$ 0.07
From continuing operations			
Basic	5	$ 0.17	$ (0.01)
Fully diluted	5	$ 0.17	$ (0.01)

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

[1] *The comparative results for the three-months ended March 31, 2024 include the results of continuing operations and discontinued operations. In accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, the results of discontinued operations for the prior period are presented separately in the current period's interim condensed consolidated statements of income and comprehensive income to provide a clear comparison.*

MEDICAL FACILITIES CORPORATION

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

	Note	Three Months Ended March 31, 2025 $	2024 $
Cash flows from operating activities			
Net income for the period		8,980	8,461
Adjustments for:			
Depreciation of property and equipment		1,660	2,268
Depreciation of right-of-use assets		2,475	2,473
Amortization of other intangibles		133	133
Change in value of exchangeable interest liability		2,530	5,186
Interest expense on exchangeable interest liability		1,700	2,048
Interest expense, net of interest income		(18)	1,287
Loss on foreign currency		130	43
Income tax (recovery) expense		(321)	377
Stock options expense	15.1	-	14
Other non-cash gain		(19)	-
		17,250	**22,290**
Net changes in non-cash operating working capital	9	(386)	4,967
		16,864	**27,257**
Interest paid, net of received		(1,139)	(2,741)
Income and withholding taxes received (paid)		30	(1)
Net cash provided by operating activities		**15,755**	**24,515**
Cash flows from investing activities			
Purchase of property and equipment		(785)	(1,772)
Net cash used in investing activities		**(785)**	**(1,772)**
Cash flows from financing activities			
Net repayments of revolving credit facilities and issuance of notes payable		-	(6,401)
Repayments of notes payable by the Facilities		(848)	(1,294)
Payment of lease liabilities		(3,041)	(2,838)
Distributions to non-controlling interest		(6,497)	(7,357)
Dividends paid		(1,441)	(1,503)
Purchase of common shares under normal course issuer bids	6	(2,036)	(1,766)
Purchase of common shares under a substantial issuer bid	7	(43,749)	-
Net cash used in financing activities		**(57,612)**	**(21,159)**
(Decrease) increase in cash and cash equivalents		**(42,642)**	**1,584**
Effect of exchange rate fluctuations on cash balances held		(130)	(43)
Cash and cash equivalents, beginning of the period		108,496	24,113
Cash and cash equivalents, end of the period		**65,724**	**25,654**

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

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

1. REPORTING ENTITY

Medical Facilities Corporation (the "Corporation") is a British Columbia corporation. The address of the Corporation's head office is 4576 Yonge Street, Suite 701, Toronto, Ontario, Canada. The common shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbol "DR".

The Corporation's operations are based in the United States. Through its wholly-owned subsidiaries, the Corporation owns controlling interests in three specialty surgical hospitals and one ambulatory surgery center ("ASC") (collectively the "Facilities").

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

		Ownership Interest March 31,	
Subsidiary	**Location**	**2025**	**2024**
Arkansas Surgical Hospital, LLC ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	64.0%	64.0%
Sioux Falls Specialty Hospital, LLP ("SFSH")	Sioux Falls, South Dakota	51.0%	51.0%
The Surgery Center of Newport Coast ("SCNC")	Newport Beach, California	51.0%	51.0%
Black Hills Surgical Hospital, LLP ("BHSH") (1)	Rapid City, South Dakota	-	54.2%

(1) *The Corporation completed the sale of BHSH during the year ended December 31, 2024.*

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, 2024 ("annual financial statements").

These consolidated financial statements were approved for issue by the Corporation's Board of Directors on May 7, 2025.

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 Accounting Standards") and should be read in conjunction with the Corporation's annual financial statements, which include information necessary or useful to understand the Corporation's business and financial statement presentation.

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

3. BASIS OF PREPARATION (Continued)

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. DISCONTINUED OPERATIONS

On November 13, 2024, BHSH entered into a definitive agreement to sell BHSH to Sanford Health for cash proceeds of $96,136 for the Corporation's 54.2% ownership share, subject to customary adjustments. The transaction was completed on November 15, 2024.

4.1 Results of discontinued operations

	Three Months Ended March 31,	
	2025	**2024**
	$	**$**
Revenue and other income		
Facility service revenue	-	26,283
	-	**26,283**
Operating expenses		
Salaries and benefits	-	11,399
Drugs and supplies	-	6,880
General and administrative expenses	-	2,875
Depreciation of property and equipment	-	581
Depreciation of right-of-use assets	-	171
	-	**21,906**
Income from operations	**-**	**4,377**
Finance costs		
Interest expense, net of interest income	-	137
	-	**137**
Income before income taxes	**-**	**4,240**
Income tax expense	-	528
Net income for the period from discontinued operations, net of tax	**-**	**3,712**

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

4. DISCONTINUED OPERATIONS (Continued)

4.2 Cash flows from discontinued operations

	Three Months Ended March 31, 2025	2024
	$	$
Net cash provided by operating activities	-	1,849
Net cash provided by investing activities	-	148
Net cash used in financing activities	-	(3,020)
Net cash flow for the period	**-**	**(1,023)**

5. EARNINGS (LOSS) PER SHARE

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

		Three Months Ended March 31, 2025			2024		
		Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	$	3,728	-	3,728	(1)	1,771	1,770
Divided by weighted average number of common shares outstanding for the period		22,176,712	-	22,176,712	24,580,394	24,580,394	24,580,394
Basic earnings (loss) per share	**$**	**0.17**	**-**	**0.17**	**(0.01)**	**0.08**	**0.07**

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

5. EARNINGS (LOSS) PER SHARE (Continued)

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

		Three Months Ended March 31,					
		2025			2024		
		Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) for the period attributable to owners of the Corporation	$	3,728	-	3,728	(1)	1,771	1,770
Change in value of exchangeable interest liability (tax effected)		-	-	-	-	-	-
Interest expense on exchangeable interest liability		-	-	-	-	-	-
Modified net income (loss) for the period attributable to owners of the Corporation	$	3,728	-	3,728	(1)	1,771	1,770
Weighted average number of common shares:							
Outstanding for the period		22,176,712	-	22,176,712	24,580,394	24,580,394	24,580,394
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		-	-	-	-	-	-
Dilutive weighted average number of common shares [(1)]		22,176,712	-	22,176,712	24,580,394	24,580,394	24,580,394
Fully diluted earnings (loss) per share	**$**	**0.17**	**-**	**0.17**	**(0.01)**	**0.08**	**0.07**

[(1)] *For the three months ended March 31, 2025 and 2024, the impact of exchangeable interest liability was excluded from the dilutive weighted average number of common shares calculation because it was anti-dilutive based on the share price prevailing at March 31, 2025 and March 31, 2024, respectively.*

6. NORMAL COURSE ISSUER BIDS

The Corporation has a normal course issuer bid for up to 2,339,066 of its common shares in effect from December 1, 2024 to November 30, 2025. During the three months ended March 31, 2025, the Corporation purchased 182,600 of its common shares for a total consideration of $2,036 from the open market under this normal course issuer bid. During the three months ended March 31, 2024, the Corporation purchased 253,900 of its common shares for a total consideration of $1,766 from the open market under a previous normal course issuer bid.

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

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

7. SUBSTANTIAL ISSUER BID

On March 11, 2025, the Corporation completed a substantial issuer bid, by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Corporation (the "Offer"). The Corporation purchased and cancelled 3,374,313 of its common shares at a price of C$18.00 per common share under the Offer, representing an aggregate purchase price of $43,145, including applicable buyback taxes, or approximately 14.7% of the Corporation's issued and outstanding common shares before giving effect to the Offer. For the three months ended March 31, 2025, the Corporation incurred transaction costs related to the Offer of $604 which have been recorded against share capital.

8. OBLIGATION FOR PURCHASE OF COMMON SHARES

The Corporation entered into an automatic share purchase plan with a broker that allows the purchase of common shares for cancellation under the normal course issuer bid, including block purchases, in accordance with certain prearranged trading parameters, at any time during predetermined trading blackout periods. An obligation for purchase of common shares of $14,910 was recognized under the automatic share purchase plan as of March 31, 2025 (December 31, 2024: $16,694), including applicable buyback taxes.

Subsequent to the period end, the Corporation purchased 256,400 of its common shares for a total consideration of $2,866 under the automatic share purchase plan, through May 2, 2025.

9. NET CHANGES IN NON-CASH WORKING CAPITAL

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

	Three Months Ended March 31,	
	2025 **$**	**2024** **$**
Accounts receivable	5,786	7,688
Supply inventory	(299)	(195)
Prepaid expenses and other receivables	1,179	1,404
Accounts payable	(3,530)	(2,226)
Accrued liabilities	(3,522)	(1,704)
Net changes in non-cash working capital	**(386)**	**4,967**

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

10. FINANCIAL INSTRUMENTS

10.1 Fair values and classification of financial instruments

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

The following table presents the carrying values and classification of the Corporation's financial instruments as of March 31, 2025 and December 31, 2024:

	March 31, 2025 $	December 31, 2024 $
Financial assets		
Amortized cost		
Cash and cash equivalents	65,724	108,496
Accounts receivable	39,682	45,468
Financial liabilities		
Fair value through profit or loss		
Exchangeable interest liability	41,833	39,303
Amortized cost		
Dividends payable	1,218	1,441
Accounts payable	13,410	16,940
Accrued liabilities	17,287	20,809
Obligation for purchase of common shares	14,910	16,694
Long-term debt	33,375	34,223

The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at amortized cost or fair value through profit or loss as of March 31, 2025 and December 31, 2024. They do not include fair value information for financial instruments which are short-term in nature.

	March 31, 2025			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial liabilities				
Exchangeable interest liability	-	41,833	-	41,833
Long-term debt	-	33,375	-	33,375
Total	**-**	**75,208**	**-**	**75,208**

	December 31, 2024			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial liabilities				
Exchangeable interest liability	-	39,303	-	39,303
Long-term debt	-	34,223	-	34,223
Total	**-**	**73,526**	**-**	**73,526**

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

10. FINANCIAL INSTRUMENTS (Continued)

10.2 Measurement of fair values

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

Financial Instrument	Valuation Technique
Exchangeable interest liability	*Market comparison technique:* The number of the Corporation's common shares to issue is based on the contractual agreements with the holders of non-controlling interest that have exchange agreements with the Corporation and take into account the distributions to the non-controlling interest over the prior twelve months. The liability is valued based on the market price of the Corporation's common shares converted to the reporting currency as of the reporting date.
Long-term debt	*Market comparison technique:* Interest rates are based on the lending agreements with various banks and creditors of long-term debt, and they are Prime or Secured Overnight Financing Rate ("SOFR") rates adjusted for the Facilities' risk rating, secured assets and other terms of agreements. The liability is valued based on debt principals and interest payments discounted to present value.

11. INCOME TAXES

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

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

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

	Three Months Ended March 31,	
Provision for income taxes	**2025 $**	**2024 $**
Current	407	762
Deferred	(728)	(913)
Total income tax recovery from continuing operations	**(321)**	**(151)**

12. INTEREST EXPENSE, NET OF INTEREST INCOME

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

	Three Months Ended March 31,	
	2025 $	**2024 $**
Interest expense at the Facility level	421	477
Interest expense at the corporate level	3	219
Interest expense on lease liabilities	543	568
Corporate credit facility stand-by fees	55	62
Interest income at the Facility level	(59)	(59)
Interest income at the corporate level	(981)	(117)
Interest expense, net of interest income, from continuing operations	**(18)**	**1,150**

13. RELATED PARTY TRANSACTIONS

13.1 Related party transactions

Dr. Reza Shahim, who resigned from his role as a member of the Corporation's Board of Directors on March 27, 2025, 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 three months ended March 31, 2025 of $1,125 (March 31, 2024: $1,125).

13.2 Other transactions

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

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 three such individuals perform the duties of Medical Director at their respective Facilities and are compensated in recognition of their contribution to the Facilities. Also, Dr. R. Blake Curd, a physician with a non-controlling interest in SFSH, is its Chief Executive Officer and the Chief Medical Officer of the Corporation.

SFSH has a 50% ownership share in an accountable care organization ("ACO") through a wholly-owned subsidiary that also provides management services to the ACO. The ACO was approved for participation in the Medicare Shared Savings Program, which is an incentive program established under the provisions of the Patient Protection and Affordable Care Act. As one of the initiatives of the ACO, SFSH entered into an agreement with Great Plains Surgical, LLC ("Great Plains"), an entity controlled by certain indirect non-controlling owners of SFSH, for the provision of management services in relation to the orthopedic service line at SFSH to improve the quality of services provided and realize savings on implants and other supplies used in that service line. In addition to the payment of fees for providing management of the orthopedic service line, Great Plains is entitled to receive performance payments for realized cost savings and the attainment of quality levels.

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

13. RELATED PARTY TRANSACTIONS (Continued)

The following is a summary of transactions at each Facility with their respective related parties during the three months ended March 31, 2025 and 2024:

Subsidiary	Nature of services or goods received	Three Months Ended March 31, 2025 $	Three Months Ended March 31, 2024 $
ASH	Lease of hospital building and office space, and physician clinic services.	937	926
OSH	Lease of hospital building and office space.	657	657
SFSH	Provision of management services in relation to orthopedic service line and ACO, anesthesia services, billing and coding services, physical and occupational therapy services, lithotripter services, facility and related equipment, and lease of urgent care building.	3,371	3,316
Total		**4,965**	**4,899**

14. COMMITMENTS AND CONTINGENCIES

14.1 Commitments

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

14.2 Contingencies

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

15. SHARE-BASED COMPENSATION

15.1 Stock options

The following table summarizes the number of outstanding stock options as of March 31, 2025:

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

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

15. SHARE-BASED COMPENSATION (Continued)

Outstanding options (the "Options") vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of March 31, 2025, all of the Options are vested.

The movement in the outstanding number of stock options for the three months ended March 31, 2025 and 2024 was as follows:

Number of outstanding options	2025	2024
Balance at January 1	444,906	744,906
Options exercised during the period	-	-
Options forfeited during the period	-	-
Balance at March 31	**444,906**	**744,906**

During the three months ended March 31, 2025, the Corporation recognized no expense (March 31, 2024: $14) 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.

15.2 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 were made quarterly until the end of the second quarter of 2024, when they were replaced by a restricted share unit ("RSU") component, after which no additional DSUs are to be issued. The outstanding DSUs vested immediately upon issue, continue to accrue dividends, and can only be redeemed when a participant ceases to serve as a director of the Corporation. The participants' 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 three months ended March 31, 2025, director compensation included no DSU grants (March 31, 2024: $100), while the change in market value of outstanding DSUs for the same period was an expense of $117 (March 31, 2024: $381). As of March 31, 2025, accrued liabilities in the interim condensed consolidated balance sheet included a liability for DSUs of $750 (December 31, 2024: $4,199).

The following table summarizes changes in the number of DSUs for the three months ended March 31:

	2025	2024
Opening balance of DSUs at January 1	386,960	351,882
DSUs granted on director fees	-	12,991
DSUs paid out	(321,787)	-
DSUs granted on dividend reinvestment	2,215	3,166
Total number of DSUs at March 31	**67,388**	**368,039**

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

15. SHARE-BASED COMPENSATION (Continued)

15.3 Restricted share units

Compensation for directors includes RSUs, for which grants based on the value of the Corporation's common shares were made on December 1, 2024 for 28,199 RSUs. The RSUs accrue dividends, vest over one year or less, at the discretion of the Corporation's Board of Directors, and are settled in cash. The value of the expense and liability associated with the RSUs is determined based on the Corporation's share price at the end of each reporting period. For the three months ended March 31, 2025, operating expenses included an RSU expense of $5 (March 31, 2024: $nil). As of March 31, 2025, accrued liabilities in the interim condensed consolidated balance sheet included a liability for RSUs of $144 (December 31, 2024: $nil).

The following table summarizes changes in the number of RSUs for the three months ended March 31:

	2025	**2024**
Opening balance of RSUs at January 1	28,199	-
RSUs paid out	(16,108)	-
RSUs granted on dividend reinvestment	161	-
Total number of RSUs at March 31	**12,252**	**-**

15.4 Performance share unit plan

Until 2020, annual grants of performance share units ("PSUs") were awarded under the Corporation's Performance Share Unit Plan ("PSU Plan"), which was amended in March 2020 to allow grants of share units ("SUs") in the form of PSUs or deferred share units ("Executive DSUs").

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

15.4.1 Share units

SU grants were made on March 31, 2020 for 346,638 Executive DSUs, on March 31, 2021 for 175,898 Executive DSUs, on March 31, 2022 for 150,348 Executive DSUs, on March 31, 2023 for 78,978 Executive DSUs, and on March 28, 2024 for 81,106 Executive DSUs, then replaced by RSUs later in 2024, after which no additional SU grants are to be made. The value of the expense and liability associated with the outstanding SUs is determined based on the Corporation's share price at the end of each reporting period. For the three months ended March 31, 2025, operating expenses included an SU expense of $213 (March 31, 2024: $212). As of March 31, 2025, accrued liabilities in the interim condensed consolidated balance sheet included a liability for SUs of $2,526 (December 31, 2024: $2,313).

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

15. SHARE-BASED COMPENSATION (Continued)

The following table summarizes changes in the number of SUs for the three months ended March 31:

	2025	**2024**
Opening balance of SUs at January 1	290,472	201,533
SUs granted	-	81,106
SUs granted on dividend reinvestment	1,662	1,813
Total number of SUs at March 31	**292,134**	**284,452**

16. MATERIAL ACCOUNTING POLICIES

The accounting policies set out in Note 21 to the annual financial statements have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Facilities.

16.1 New and revised IFRS Accounting Standards not yet adopted

The new and revised IFRS Accounting Standards not yet adopted, as detailed in Note 21.24 to the annual financial statements, also apply to these consolidated financial statements. The Corporation continues to assess the impact of the adoption of these new and revised IFRS Accounting Standards on the consolidated financial statements in future periods. There are no other new and revised IFRS Accounting Standards that have been issued but not yet adopted that would be expected to have a material impact on the Corporation.