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OFFICE OF INTERNATIONAL  
CORPORATE FINANCE

May 15, 2007



07023720

Via Federal Express

Securities and Exchange Commission  
Division of Corporate Finance - International Corporate Finance  
100 F Street, NE  
Washington, DC 20549

SUPPL

Re: Medical Facilities Corporation - File Number 82-34942

Dear Sir or Madam,

In connection with the Commission's granting to Medical Facilities Corporation ("MFC") the exemption provided by Rule 12g3-2(b) under the Securities Exchange Act, enclosed please find materials filed by MFC in Canada for the period between April 24, 2007 through May 14, 2007. If you have any questions please do not hesitate to contact me.

Sincerely,

Richard B. Raymer

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Enclosures

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Medical Facilities Corporation  
File Number 82-34942

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May 7, 2007	News release - English	OFFICE OF INTERAGENCY CORPORATE FINANCE
May 11, 2007	MD & A - English	
May 11, 2007	Form 52-109F2 - Certification of Interim Filings - CFO	
May 11, 2007	Form 52-109F2 - Certification of Interim Filings - CEO	
May 11, 2007	Interim financial statements - English	
May 11, 2007	News release - English	

News release via Canada NewsWire, Toronto 416-863-9350

Attention Business/Financial Editors:  
 Medical Facilities Corporation Reports Fiscal 2007 First Quarter  
 Financial Results

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REGISTRATION  
 CORPORATE FINANCIAL

TORONTO, May 11 /CNW/ - Medical Facilities Corporation ("Medical Facilities") (TSX:DR.UN), today reported its financial results for the three-month period ended March 31, 2007. All amounts are expressed in U.S. dollars unless indicated otherwise.

#### Q1 07 HIGHLIGHTS

<<

- Net revenues increased 13.9% to \$41.2 million from \$36.1 million in Q1 06
- Operating income increased 15.3% to \$17.2 million from \$14.9 million in Q1 06
- Cash available for distribution(1) totalled C\$9.7 million and declared distributions totalled C\$7.7 million, representing a payout ratio of 79.5%, down from a payout ratio of 85.9% in Q1 06

>>

"Q1 07 was another excellent quarter for Medical Facilities with revenue growth at all of our Centers and strong overall operating margins of approximately 42 percent," said Dr. Donald Schellpfeffer, CEO of Medical Facilities. "Our South Dakota Centers continued to generate strong operating income, up 22 percent quarter-over-quarter. While net revenues at our Oklahoma Spine Hospital ("OSH") were up 2.5 percent and average gross pain management revenue per procedure increased, net pain management revenue was negatively impacted by a 17 percent decrease in the number of pain management procedures performed and an increase in the cost of drugs and supplies. Improving the performance of OSH is a key objective in 2007. Specific initiatives include the recruitment of physicians and the introduction of new, more complex and higher revenue generating procedures."

#### Financial Results

For the three months ended March 31, 2007, Medical Facilities generated cash available for distribution(1) ("CAFD") of C\$9.7 million or C\$0.346 per IPS unit, and declared distributions (comprised of interest on subordinated notes and dividends on common shares) of C\$7.7 million or C\$0.275 per IPS unit, resulting in a payout ratio of 79.5% for the quarter, down from a payout ratio of 85.9% in the first quarter a year ago. Significant portions of Medical Facilities' expected future U.S. dollar cash flows available for distribution are hedged and will be converted at exchange rates averaging C\$1.2490, C\$1.1679, and C\$1.1136 in each of the next three years.

Net patient service revenues ("net revenues") for the first quarter of 2007 increased 13.9% to \$41.2 million compared to net revenues of \$36.1 million in the first quarter of 2006. Net revenues during the quarter increased at all four Centers due to greater case volumes and a more favourable case mix. OSH experienced marginal revenue growth due to a less favourable case and payor mix which caused a higher provision for contractual allowances.

Consolidated expenses, including salaries and benefits, drugs and supplies and general and administrative costs ("consolidated expenses") for the first quarter of 2007 totalled \$23.9 million or 58.2% of net revenues, compared to consolidated expenses of \$21.2 million or 58.6% of net revenues the first quarter a year ago. Increased consolidated expenses resulted primarily from the costs associated with the increased number of cases, annual wage and salary adjustments, and higher employee health insurance premiums.

Operating income (before depreciation and amortization, interest expense, loss on foreign currency translation and minority interest) in the first quarter of 2007 increased 15.3% to \$17.2 million or 41.7% of net revenues, compared to \$14.9 million or 41.2% of net revenues in the same quarter a year ago. The increase in operating income reflects strong performance of the South

Dakota centres, offset by slightly decreased margins at OSH, which were down 4.4% quarter-over-quarter.

Net loss for the first quarter of 2007 totalled \$1.3 million or (\$0.06) per IPS unit (basic and fully diluted), compared to a net loss of \$0.4 million or (\$0.01) per IPS unit (basic and fully diluted) in the first quarter of 2006.

Medical Facilities' 2007 first quarter financial statements and Management's Discussion & Analysis ("MD&A"), for the three-month period ended March 31, 2007 will be issued and filed on SEDAR today and will be available via Medical Facilities' website today at [www.medicalfacilitiescorp.ca](http://www.medicalfacilitiescorp.ca) and the SEDAR website at [www.sedar.com](http://www.sedar.com) tomorrow.

#### Notice of Conference Call and Webcast

Management of Medical Facilities will host a conference call today, May 11 at 9:00 am (EST) to discuss its 2007 first quarter financial results. A live audio webcast of the call will be available at [www.medicalfacilitiescorp.ca](http://www.medicalfacilitiescorp.ca). Webcast attendees are welcome to listen to the conference in real-time or on-demand at your convenience. A taped replay of the conference call will be available until Friday, May 18 at midnight at 1-877-289-8525 or 416-640-1917, reference number 21227170 (followed by the number sign).

(1) Cash available for distribution is a non-GAAP measure and is not intended to be representative of cash flow or results of operations determined in accordance with GAAP. Accordingly, Medical Facilities provides a reconciliation of cash available for distributions to reported cash flow from operations. Investors are cautioned that cash available for distribution, as calculated by Medical Facilities, is unlikely to be comparable to similar measures used by other issuers.

#### About Medical Facilities Corporation

MFC owns controlling interests in four surgical hospitals, three located in South Dakota and one in Oklahoma. The four hospitals perform scheduled surgical, imaging and diagnostic procedures and derive their revenue from the fees charged for the use of their facilities. Medical Facilities is structured so that a majority of its free cash flows from operations are distributed to holders of its IPS with a portion of such distributions being interest payments on the subordinated debt component. For more information, please visit [www.medicalfacilitiescorp.ca](http://www.medicalfacilitiescorp.ca)

#### Caution concerning forward-looking statements

Statements made in this news release, other than those concerning historical financial information, may be forward-looking and therefore subject to various risks and uncertainties. Some forward-looking statements may be identified by words like "may", "will", "anticipate", "estimate", "expect", "intend", or "continue" or the negative thereof or similar variations. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. Factors that could cause results to vary include those identified in Medical Facilities' filings with Canadian securities regulatory authorities such as legislative or regulatory developments, intensifying competition, technological change and general economic conditions. All forward-looking statements presented herein should be considered in conjunction with such filings. Medical Facilities does not undertake to update any forward-looking statements; such statements speak only as of the date made.

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/For further information: Michael Salter, Chief Financial Officer, Medical Facilities Corp., (416) 848-7980 or 1-877-402-7162; Bruce Wigle, Investor Relations, The Equicom Group Inc., (416) 815-0700 ext. 228 or 1-800-385-5451 ext.228, Email: [bwigle\(at\)equicomgroup.com/](mailto:bwigle(at)equicomgroup.com/)

(DR.UN.)

CO: Medical Facilities Corporation

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OFFICE OF THE  
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Interim Consolidated Financial Statements of

**MEDICAL FACILITIES  
CORPORATION**

For the Three Months ended March 31, 2007  
(Unaudited)

# MEDICAL FACILITIES CORPORATION

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

	March 31, 2007 (Unaudited)	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 18,623	\$ 15,367
Accounts receivable	26,752	27,677
Supply inventory	2,996	2,744
Prepaid expenses and other	1,300	1,330
Withholding tax deposited	4,640	5,129
	<u>54,311</u>	<u>52,247</u>
Property and equipment	30,911	31,343
Restricted cash (note 6)	4,483	4,483
Foreign exchange forward contracts (note 6)	2,075	2,424
Subordinated notes payable early redemption option (note 1)	1,683	-
Intangibles	126,226	128,598
Goodwill	83,795	75,532
	<u>\$ 303,484</u>	<u>\$ 294,627</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accrued interest payable	\$ 1,478	\$ 1,494
Dividends payable	726	734
Accounts payable	3,546	3,518
Accrued liabilities	4,421	6,178
Current maturities of long-term debt (note 2)	1,755	1,758
	<u>11,926</u>	<u>13,682</u>
Long-term debt less current maturities (note 2)	23,839	22,811
Future income tax liability	2,157	1,837
Subordinated notes payable (note 3)	134,712	132,705
Minority exchangeable interest liability (note 1)	63,842	55,503
Minority interests	10,931	10,717
Shareholders' equity:		
Share capital (note 3)	93,904	93,648
Deficit (note 1)	(37,827)	(36,276)
	<u>56,077</u>	<u>57,372</u>
Commitments (note 7)		
	<u>\$ 303,484</u>	<u>\$ 294,627</u>

See accompanying notes to interim consolidated financial statements.

# MEDICAL FACILITIES CORPORATION

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

	Three months ended March 31, 2007 (Unaudited)	Three months ended March 31, 2006 (Unaudited)
<b>Facility service revenue</b>	<b>\$ 41,158</b>	<b>\$ 36,129</b>
<b>Expenses:</b>		
Salaries and benefits	8,807	8,242
Drugs and supplies	8,826	7,371
Other operating expenses	380	436
General and administrative	5,979	5,189
	<u>23,992</u>	<u>21,238</u>
<b>Income before the undernoted</b>	<b>17,166</b>	<b>14,891</b>
Depreciation and amortization	3,720	3,448
Other expenses (income):		
Interest expense, net of interest income	4,778	4,883
Interest expense on minority interest exchangeable liability (note 1)	1,932	2,025
Change in value of subordinated notes early redemption option (note 1)	230	-
Loss (gain) on foreign currency (note 8)	964	772
Other	(42)	(86)
	<u>7,862</u>	<u>7,594</u>
<b>Income before income taxes and minority interest</b>	<b>5,584</b>	<b>3,849</b>
Income tax expense (benefit)	1,131	(695)
Income before minority interest	4,453	4,544
Minority interest	5,749	4,931
	<u>5,749</u>	<u>4,931</u>
<b>Net loss for the period</b>	<b>(1,296)</b>	<b>(387)</b>
Deficit, beginning of period	(36,276)	(25,363)
Dividends	(2,168)	(2,198)
Impact of adopting new financial instruments standards (note 1)	1,913	-
	<u>1,913</u>	<u>-</u>
<b>Deficit end of period (note 1)</b>	<b>\$ (37,827)</b>	<b>\$ (27,948)</b>
<b>Basic and fully diluted loss per share (note 1)</b>	<b>\$ (0.055)</b>	<b>\$ (0.009)</b>

See accompanying notes to interim consolidated financial statements.

# MEDICAL FACILITIES CORPORATION

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

	Three months ended March 31, 2007 (Unaudited)	Three months ended March 31, 2006 (Unaudited)
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net loss for the period	\$ (1,296)	\$ (387)
Items not affecting cash:		
Depreciation of property and equipment	952	948
Amortization of other intangibles	2,768	2,500
Amortization of debt issue costs	127	124
Minority interest	5,749	4,931
Change in value of subordinated notes payable early redemption option (note 1)	230	-
Unrealized loss (gain) on foreign currency	1,885	1,592
Future tax expense (benefit)	320	(792)
Change in non-cash operating working capital	(551)	(483)
	<u>10,184</u>	<u>8,433</u>
<b>Financing activities:</b>		
Net proceeds from credit facilities	1,025	999
Distributions to minority interests	(5,256)	(5,365)
Dividends	(2,176)	(2,198)
	<u>(6,407)</u>	<u>(6,564)</u>
<b>Investing activities:</b>		
Purchase of property and equipment, net	(521)	(573)
	<u>(521)</u>	<u>(573)</u>
Increase in cash and cash equivalents	3,256	1,296
Cash and cash equivalents, beginning of period	15,367	12,443
<b>Cash and cash equivalents, end of period</b>	<u>\$ 18,623</u>	<u>\$ 13,739</u>
<b>Supplemental cash flow information:</b>		
Interest paid on minority exchangeable interest liability	\$ 1,932	\$ 2,025
Interest paid	4,848	4,339
<b>Non-cash transactions:</b>		
Acquisition of additional interest in Oklahoma Spine Hospital (Note 3)	(598)	-

See accompanying notes to interim consolidated financial statements.

# MEDICAL FACILITIES CORPORATION

Notes to Interim Consolidated Financial Statements  
(In thousands of U.S. dollars, unless otherwise indicated)  
For the three months ended March 31, 2007  
(Unaudited)

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Medical Facilities Corporation (the "Corporation") owns indirect controlling interests in four limited liability entities (the "Centers"), each of which owns a specialty hospital. The Centers are located in Sioux Falls, Rapid City and Aberdeen, South Dakota, and Oklahoma City, Oklahoma, United States.

These interim consolidated financial statements of the Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada and include the accounts of the Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated. Except as detailed below in note 1, these statements have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements of the Corporation for the year ended December 31, 2006, but do not contain all disclosures required by generally accepted accounting principles and accordingly should be read in conjunction with the annual consolidated financial statements and the notes thereto.

## 1. New accounting policies:

Effective January 1, 2007, the Corporation has adopted the recommendations of Sections 3855 *Financial Instruments – Recognition and Measurement* and 3861 *Financial Instruments – Disclosure and Presentation* of the Canadian Institute of Chartered Accountants ("CICA") Handbook in accordance with the transitional provisions contained therein.

In order to implement the recommendations the Corporation classified its financial assets and liabilities as follows:

- i. Cash and cash equivalents, forward exchange forward contracts, as well as embedded derivatives requiring bifurcation from their host contracts, are classified as "Assets or liabilities held for trading", and are carried at fair value;
- ii. Accounts receivables are classified as loans and receivables, and are carried at amortized cost using the effective interest method;
- iii. Restricted cash, long-term debt and subordinated notes payable ("SubNotes") are classified as "Assets or liabilities held to maturity", and are carried at amortized cost using the effective interest method;
- iv. Interest and dividends payable, accounts payable and accrued liabilities are classified as "Other financial assets or liabilities" and are carried at fair value which in all material respects is equal to cost;
- v. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as other than "held for trading" are included in the carrying value of such instruments.

# MEDICAL FACILITIES CORPORATION

Notes to Restated Interim Consolidated Financial Statements (continued)

(In thousands of U.S. dollars, unless otherwise indicated)

For the three months ended March 31, 2007

(Unaudited)

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## 1. New accounting policies (continued):

### *Embedded Derivatives in the SubNotes*

The Corporation identified the following embedded derivatives in the SubNotes that require separate presentation in these financial statements:

- i. An early redemption option ("Early Redemption Option")
- ii. An extension option ("Renewal Option")

The Early Redemption Option permits the Corporation to call its outstanding SubNotes after the fifth anniversary date for a premium over the principal amount of 5% in 2009, 4% in 2010, 3% in 2011, 2% in 2012, 1% in 2013 and at par in 2014 and thereafter. Management, with assistance from third party valuers, has determined that the fair value of this option was C\$2.23 (US\$1.91) million as at December 31, 2006 and C\$1.94 (US\$1.68) million as at March 31, 2007. The fair value of the Early Redemption Option as of January 1, 2007 has been recorded retrospectively without restatement of comparative periods resulting in an adjustment of \$1.91 million to opening deficit and in the change of \$0.23 million in the value of this option to March 31, 2007, which was included in the income for that period.

Under the Renewal Option, the Corporation may extend the maturity of its SubNotes for two additional successive five-year terms, provided that certain conditions are met. Management, with assistance from third party valuers, has determined that the fair value of this option is nominal and therefore is not separately reflected in these financial statements. ***Effective Interest Method***

Section 3855 requires that certain financial assets or liabilities be amortized over their expected life utilizing the effective interest method ("EIM"). Application of the EIM did not result in any significant differences in the Corporation's amortization of such assets and liabilities.

# MEDICAL FACILITIES CORPORATION

Notes to Restated Interim Consolidated Financial Statements (continued)

(In thousands of U.S. dollars, unless otherwise indicated)

For the three months ended March 31, 2007

(Unaudited)

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## 1. New accounting policies (continued):

### *Minority Exchangeable Interest Liability*

At the time of the acquisition of the Centers, holders of the minority interest in each of the Centers were granted the right to exchange partnership units representing up to a 14% interest in the respective Center, ("Exchangeable Interest") for Income Participating Securities ("IPS") issuable by the Corporation. The number of IPS units issuable under the Exchangeable Interest is determined by application of a formula which takes into account the number of partnerships units being tendered for exchange, an exchange ratio determined at the date the exchange right was originally granted, and the distributions from the Centers over the prior twelve months. The exchange agreement between the Corporation and the minority interest holders in each of the Centers (the "Exchange Agreement") contains the details of the exchange right.

Effective January 1, 2007, the Corporation has recognized the Exchangeable Interest separately in the financial statements by retroactively adopting the liability method of accounting as a change in accounting policy. Under the liability method of accounting, the Exchangeable Interest is reflected in the financial statements as follows:

- i) The exchange right is considered to have been fully exchanged at the original dates of acquisition of each center, resulting in the purchase of a further 14% interest in each Center for an amount (the "imputed purchase price") proportionate to the price paid for the original 51% interest in such Centers. The imputed purchase price is allocated to the fair value of the assets acquired, including intangible assets and goodwill, consistent with the acquisition of the initial 51% interest.
- ii) The corresponding amount of the imputed purchase price relating to the 14% interest is reflected as Minority Exchangeable Interest Liability. The Minority Exchangeable Interest Liability is carried at fair value, as determined at each reporting date by applying the closing IPS price on the last trading day of the period, converted into US\$ at the closing exchange rate, to the total number of IPS issuable under the outstanding Exchangeable Interest. Changes in the fair value of the Minority Exchangeable Interest Liability are recorded as adjustments to goodwill.
- iii) Amortization of the intangibles and fair market value of property and equipment in excess of underlying book values is consistent with the amortization of the assets that arose on acquisition of the initial 51% interest in each Center.
- iv) The distributions made by each Center, that relate to the ownership interest therein that is the subject of the outstanding Exchangeable Interest, are treated as interest expense in the Corporation's income statement.
- v) Upon adoption of this accounting treatment of the Minority Exchangeable Interest Liability, the calculation of basic and diluted loss per share involves certain modifications to the net income as reported and uses the number of issued and

# MEDICAL FACILITIES CORPORATION

Notes to Restated Interim Consolidated Financial Statements (continued)

(In thousands of U.S. dollars, unless otherwise indicated)

For the three months ended March 31, 2007

(Unaudited)

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outstanding IPS, as well as the number of IPS issuable in connection with the Minority Exchangeable Interest Liability.

## 1. New accounting policies (continued):

The following table summarizes the changes to the Corporation's balance sheet as at December 31, 2006 resulting from the retroactive adoption of the liability method of accounting for the Exchangeable Interest:

	December 31, 2006		December 31, 2006
	As Reported	Adjustments	As Adjusted
Property and equipment	30,931	412	31,343
Intangibles	103,392	25,206	128,598
Goodwill	56,244	19,288	75,532
Minority Exchangeable Interest Liability	-	55,503	55,503
Minority interests	16,771	(6,054)	10,717
Deficit	(31,733)	(4,543)	(36,276)

### *Comprehensive Income*

Effective January 1, 2007, the Corporation has adopted Section 1530 *Comprehensive Income* of the CICA Handbook. The Corporation has determined that there are no comprehensive items that should be included in a statement of comprehensive income and consequently no such statement is presented.

# MEDICAL FACILITIES CORPORATION

Notes to Restated Interim Consolidated Financial Statements (continued)

(In thousands of U.S. dollars, unless otherwise indicated)

For the three months ended March 31, 2007

(Unaudited)

## 2. Long-term debt:

	Authorized	March 31, 2007	December 31, 2006
	\$	\$	\$
<b>Revolving Credit Facilities</b>			
Black Hills Surgery Center, LLP	5,500	2,520	2,025
Dakota Plains Surgical Center, LLP	5,000	3,470	3,232
Sioux Falls Surgical Center, LLP	6,400	3,229	2,579
Oklahoma Spine Hospital, LLC	5,000	1,496	1,500
	21,900	10,715	9,336
<b>Notes Payable</b>			
Black Hills Surgery Center, LLP	8,736	8,736	8,955
Sioux Falls Surgical Center, LLP	5,896	5,896	5,972
	14,632	14,632	14,927
<b>Capital Lease</b>			
Sioux Falls Surgical Center, LLP		247	306
		25,594	24,569
<b>Less Current Portion</b>		1,755	1,758
		<b>23,839</b>	<b>22,811</b>

The credit facilities for Dakota Plains Surgical Center, LLP and Sioux Falls Surgical Center, LLP bear interest at rates that vary with prime and at March 31, 2007, the effective interest rate was approximately 7.75% (December 31, 2006 - 7.75%). The credit facility for Oklahoma Spine Hospital, LLC bears interest at a rate that varies with LIBOR and at March 31, 2007, the effective interest rate was approximately 7.75% (December 31, 2006 - 7.57%). With respect to the Black Hills Surgery Center, LLP credit facilities of \$2,520 (December 31, 2006 - \$2,025) varies with monthly LIBOR (effective interest rate of 6.68% at March 31, 2007 and 7.38% at December 31, 2006) and notes payable of \$8,736 are at a fixed weighted average interest rate of 5.76% (December 31, 2006 - \$8,955 at fixed weighted average interest rate of 5.76%).

The Sioux Falls Surgical Center, LLP credit facilities and note payable mature between 2007 and 2011. The credit facility related to Dakota Plains Surgical Center, LLP is due in full on April 15, 2008. The credit facility related to Oklahoma Spine Hospital, LLC is due in full on May 31, 2010. The Black Hills Surgery Center, LLP credit facilities and notes payable mature between 2007 and 2010.

Each credit facility is secured by a security interest in all property and a mortgage on real property owned by the respective Center. These credit facilities contain certain restrictive covenants.

# MEDICAL FACILITIES CORPORATION

Notes to Restated Interim Consolidated Financial Statements (continued)

(In thousands of U.S. dollars, unless otherwise indicated)

For the three months ended March 31, 2007

(Unaudited)

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### 3. Subordinated notes payable and share capital:

Effective March 30, 2007, pursuant to the terms of the Exchange Agreement, the minority owner of Oklahoma Spine Hospital, LLP exchanged 0.75% of the ownership units in the Center for IPS of the Corporation. Under this transaction, the Corporation issued 66,977 IPS units. The Minority Exchangeable Interest Liability was reduced by \$599. The aggregate amounts allocated to subordinated notes payable and common shares issued under this transaction were Cdn\$395 (US\$343) thousands and Cdn\$294 (US\$256) thousands respectively.

The accounting policy adopted by the Corporation on January 1, 2007 treats the exchange right held by the minority interest holders of the Centers on an "as if exchanged basis". Hence, the transaction gave rise to no changes in acquired assets and is accounted for as a settlement of the liability to exchangeable minority interests.

### 4. Employee future benefits:

Benefits programs at each of the Centers include a qualified 401(k) retirement plan, which covers all employees who meet eligibility requirements. Each Center makes matching contributions subject to certain limits. Contributions made by the Centers for the three months ended March 31, 2007 were \$199 (for the three months ended March 31, 2006 - \$253).

# MEDICAL FACILITIES CORPORATION

Notes to Restated Interim Consolidated Financial Statements (continued)

(In thousands of U.S. dollars, unless otherwise indicated)

For the three months ended March 31, 2007

(Unaudited)

## 5. Related party transactions:

The Corporation and the Centers routinely enter into transactions with certain related parties. Such transactions, which are described below, are in the normal course of operations and at the exchange amounts agreed upon by the parties involved.

### (a) Management services and other contracts:

	Three months ended March 31, 2007 \$	Three months ended March 31, 2006 \$
Management services acquired by Dakota Plains Surgical Center, LLP from Sioux Falls Surgical Physicians, LLP ("Surgical Physicians") <sup>(1)</sup>	56	56
Laundry services obtained by Sioux Falls Surgical Center, LLP from Center Inn <sup>(2)</sup>	27	25
Office and management services acquired by Oklahoma Spine Hospital, LLC from Integrated Medical Delivery ("IMD"), LLC <sup>(3)</sup>	650	637
Payments by the Corporation for use of aircraft operated by SC Meridian, LLC <sup>(4)</sup>	35	-
Reimbursement to Sioux Falls Surgical Center, LLP for services provided under a contract to or on behalf of Surgical Physicians and Surgical Management Professionals LLC ("SMP") <sup>(1)</sup>	(318)	(498)
Physical therapy services provided to Black Hills Surgery Center by Black Hills Orthopaedic and Spine Center ("BHOSC") <sup>(5)</sup> and Neurosurgical & Spinal Surgery Associates ("NSSA") <sup>(6)</sup>	56	47
Intraoperative monitoring services provided to Black Hills Surgery Center by NSSA	88	88
Certain physician's services provided to Dakota Plains Surgical Center by Orthopaedic Surgery Specialists ("OSS") <sup>(7)</sup>	-	29

Note 1: Surgical Physicians owns 49% of Sioux Falls Surgical Center, LLP. As of March 31, 2007, an amount of \$12 was receivable from Surgical Physicians. As of April 1, 2006 SMP was spun out of Surgical Physicians and became a stand-alone entity. As of March 31, 2007 \$152 was receivable from SMP.

Note 2: Certain indirect minority owners of Sioux Falls Surgical Center, LLP are also owners of the Center Inn.

Note 3: Certain indirect minority owners of Oklahoma Spine Hospital, LLC own approximately 45% of IMD. The service agreement is automatically renewed for three-year periods (renewed in August 2004). As of March 31, 2007, \$213 owing to IMD for services obtained was included in accounts payable.

Note 4: SC Meridian is an entity controlled by an Officer of the Corporation. The Corporation uses the chartered aircraft for certain of its acquisition activities. As of March 31, 2007 \$24 owing to SC Meridian was included in the accounts payable.

Note 5: Certain indirect minority owners of Black Hills Surgery Center, LLP are also owners of the BHOSC. As of March 31, 2007, \$12 owing to BHOSC for services obtained was included in accounts payable.

Note 6: Certain indirect minority owners of Black Hills Surgery Center, LLP are also owners of the NSSA. As of March 31, 2007, \$4 owing to NSSA for services obtained was included in accounts payable.

Note 7: Certain indirect minority owners of Dakota Plains Surgical Center, LLP are also owners of the OSS.

# MEDICAL FACILITIES CORPORATION

Notes to Restated Interim Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, unless otherwise indicated)  
For the three months ended March 31, 2007  
(Unaudited)

## 5. Related party transactions (continued):

### (b) Real estate lease contracts:

	Three months ended March 31, 2007 \$	Three months ended March 31, 2006 \$
Additional office space leased by Sioux Falls Surgical Center, LLP from Center Inn <sup>(1)</sup>	5	16
Facility building leased by Oklahoma Spine Hospital, LLC from Memorial Property Holdings, LLP ("MPH") <sup>(2)</sup>	372	372
Additional office space leased by Oklahoma Spine Hospital, LLC from MM Property Holdings, LLP ("MM Property") <sup>(3)</sup>	39	39

*Note 1: Certain equity owners of Sioux Falls Surgical Center, LLP are also owners of the Center Inn.*

*Note 2: The majority of the owners of MPH are also indirect minority owners of Oklahoma Spine Hospital, LLC. See note 7 to the financial statements for disclosure of the future rental payment commitments under the contracts with the related parties.*

*Note 3: MM Property is owned by two physicians that also own equity membership units in Oklahoma Spine Hospital, LLC. See note 7 to the financial statements for disclosure of the future rental payment commitments under the contracts with the related parties.*

### (c) Other transactions:

Physicians, who through four companies indirectly own the minority interests in each of the Centers, routinely provide professional services directly to patients utilizing the facilities of the Centers. Certain of the physicians serve on the boards of management of the Centers and three such individuals perform the duties of Medical Director at the respective Centers and are reimbursed in recognition of their contribution to the Centers.

Included in the balance of prepaid expenses and other is a note receivable from Oklahoma Physical Therapy ("OPT") in the amount of \$175. Certain owners of OPT are also indirect minority owners of Oklahoma Spine Hospital, LLC. This note is repayable in monthly blended payments of \$5 (including interest at 5% per annum) through November 2009.

# MEDICAL FACILITIES CORPORATION

Notes to Restated Interim Consolidated Financial Statements (continued)

(In thousands of U.S. dollars, unless otherwise indicated)

For the three months ended March 31, 2007

(Unaudited)

## 6. Foreign exchange forward contracts:

At March 31, 2007, the Corporation had forward foreign exchange contracts outstanding under which the Corporation will sell U.S. dollars each month for a fixed amount of Canadian dollars on the following terms:

Contract Dates	US\$ to be delivered (\$millions)	Cdn\$ to be received (\$millions)	Cdn\$ per US\$ (Weighted Average)
Apr 2007 – Mar 2008	24.1	30.1	1.2490
Apr 2008 – Mar 2009	26.2	30.6	1.1679
Apr 2009 – Apr 2010	31.7	35.3	1.1136
	<u>82.0</u>	<u>96.0</u>	

The foregoing contracts have a fair value as of March 31, 2007 of \$2.1 million (December 31, 2006 - \$2.4 million), which amount has been recognized in the Corporation's financial statements.

The Corporation has deposited \$4.5 million as collateral to ensure its performance under these contracts. The deposit is classified as restricted cash on the consolidated balance sheet.

## 7. Commitments and contingencies:

### (a) Commitments:

The Centers lease certain equipment under non-cancellable long-term leases. In addition, Oklahoma Spine Hospital, LLC leases its facility building and additional office space from related entities (See note 5 for description of relationships with these entities). Minimum payments for these leases are as follows:

	Non-Related Parties \$	Related Parties \$	Total \$
2007	633	1,233	1,866
2008	620	1,645	2,265
2009	514	1,645	2,159
2010	416	1,645	2,061
2011	314	1,645	1,959
Thereafter	56	5,955	6,011
	<u>2,553</u>	<u>13,768</u>	<u>16,321</u>

# MEDICAL FACILITIES CORPORATION

Notes to Restated Interim Consolidated Financial Statements (continued)

(In thousands of U.S. dollars, unless otherwise indicated)

For the three months ended March 31, 2007

(Unaudited)

## 7. Commitments and contingencies (continued):

### (b) Contingencies

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

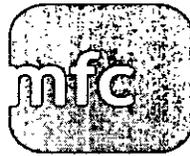
## 8. Loss (gain) on foreign currency:

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

	Three months ended March 31, 2007 \$	Three months ended March 31, 2006 \$
Unrealized loss (gain) on the subordinated notes payable	1,537	(608)
Unrealized loss on the foreign exchange forward contracts	349	2,200
Realized gain on the hedge contracts that matured in the current period	(762)	(852)
Unrealized loss (gain) on the cash balances denominated in Cdn\$	(160)	32
Loss (gain) on foreign currency	964	772

## 9. Fair value of financial instruments:

The Corporation obtained the fair value of the foreign exchange forward contracts from the counterparty to the contracts. The fair value of the early redemption option relating to the subordinated notes payable is determined with assistance from qualified valuers using a derivative valuation model that requires various assumptions (including effective interest rates, interest rate volatility, and issuer credit spread volatility). The fair value of the subordinated notes payable as of March 31, 2007 is \$150,143 and was determined with assistance from qualified valuers using a discounted cash flows model. The fair value of all other financial instruments of the Corporation, due to the short-term nature of these instruments, approximates their book values.



**MEDICAL  
FACILITIES  
CORPORATION**

**Form 52-109F2  
Certification of Interim Filings**

I, **Donald Schellpfeffer**, Chief Executive Officer of Medical Facilities Corporation, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Medical Facilities Corporation (the issuer) for the interim period ending March 31, 2007;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - a. designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and
  - b. designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: May 10, 2007

A handwritten signature in cursive script that reads 'Donald Schellpfeffer'.

**Donald Schellpfeffer**  
Chief Executive Officer



**Form 52-109F2  
Certification of Interim Filings**

I, **Michael Salter**, Chief Financial Officer of Medical Facilities Corporation, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Medical Facilities Corporation (the issuer) for the interim period ending March 31, 2007;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - a. designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and
  - b. designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: May 10, 2007

A handwritten signature in black ink that reads "Michael Salter". The signature is written in a cursive, flowing style.

**Michael Salter**  
Chief Financial Officer



**MEDICAL  
FACILITIES  
CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
CONSOLIDATED FINANCIAL CONDITION AND RESULTS  
OF OPERATIONS  
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2007**

May 10, 2007

*The information in this Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the consolidated financial statements of Medical Facilities Corporation (the "Corporation") for the three-month period ended March 31, 2007 which financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Substantially all of the Corporation's operating cash flows are in U.S. dollars and all amounts presented herein are stated in U.S. dollars, unless indicated otherwise.*

*This discussion and analysis contains forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control that could cause actual results to differ materially from those described in the forward-looking statements. The Corporation does not assume responsibility for the accuracy and completeness of these forward-looking statements and does not undertake the obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.*

*Comparative financial data contained in this MD&A reflect the impact of the changes in the accounting policies described in the Financial Instruments section of this MD&A.*

*This discussion also makes reference to certain non-GAAP measures to assist in assessing the Corporation's financial performance. Non-GAAP earnings measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.*

*Additional information about and the Annual Information Form filed by the Corporation are available on SEDAR at [www.sedar.com](http://www.sedar.com) or the Corporation's website at [www.medicalfacilitiescorp.com](http://www.medicalfacilitiescorp.com).*

This Management's Discussion and Analysis is presented in the following sections:

- **Corporate Overview**
- **Non-GAAP Financial Measure – Cash Available for Distribution**
- **Condensed Consolidated Financial Highlights**
- **Operating and Financial Results of the Centers**
- **Liquidity and Financial Condition**
- **Financial Instruments**
- **Related Party Transactions**
- **Critical Accounting Estimates**
- **Management's Responsibility for Financial Reporting and Disclosure Controls**
- **Risk Factors**
- **Outlook**

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## **CORPORATE OVERVIEW**

The Corporation is a British Columbia corporation and is subject to corporate taxation in both Canada and the United States. The Corporation, through its wholly-owned U.S. subsidiary, owns controlling interests in and derives substantially all of its income from, four limited liability entities (the "Centers"), each of which owns a specialty surgical hospital, three located in South Dakota and one in Oklahoma. The four Centers provide facilities (including staff, support, and supplies) for scheduled surgical, pain management, imaging and diagnostic procedures and derive their revenue primarily from the fees charged for the use of these facilities.

## **NON-GAAP FINANCIAL MEASURE – CASH AVAILABLE FOR DISTRIBUTION**

The Corporation distributes a substantial majority of its free cash flows from operations in the United States to holders of its Income Participating Securities ("IPS"), with a portion of such distributions being interest payments on its subordinated notes and a portion being dividends on its common shares. The Corporation believes that cash available for distribution on its IPS provides a useful measure for evaluation of the Corporation's performance. In particular, the Corporation believes that investors should be able to ascertain the extent to which the distributions are funded by operations as discussed below.

Cash available for distribution is a non-GAAP measure and is not intended to be representative of cash flow or results of operations determined in accordance with GAAP. Accordingly, the Corporation provides a reconciliation of cash available for distribution to cash provided by operating activities. Investors are cautioned that cash available for distribution, as calculated by the Corporation, is unlikely to be comparable to similar measures used by other issuers.

The major differences between cash available for distribution, which is not a defined term under Canadian GAAP, and cash provided by operating activities as reported in the Corporation's financial statements are:

- 1) Interest on the subordinated notes;
- 2) Interest on Minority Exchangeable Interest Liability
- 3) Changes in the non-cash operating working capital for the period;
- 4) Losses (gains) on the cash balances denominated in Cdn\$;
- 5) Minority interest in the cash flow of the Centers generated in the respective periods;
- 6) Repayment of non revolving debt at the Centers' level; and
- 7) Maintenance capital expenditures.

*Reconciliation of cash available for distribution to the cash flows from operating activities*

	Three Months Ended March 31, 2007 (\$'000s) (unaudited)	Three Months Ended March 31, 2006 (\$'000s) (unaudited)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>10,184</b>	<b>8,433</b>
Add:		
Interest expense on Minority Exchangeable Interest Liability	1,932	2,025
Interest expense (net of interest income and amortization of deferred finance costs)	4,651	4,759
Change in non-cash operating working capital	551	481
Unrealized loss on foreign currency on cash balances denominated in Cdn\$	-	32
	<u>17,318</u>	<u>15,730</u>
Less:		
Minority interest in cash flow of Centers	(8,040)	(6,845)
Interest expense (other than on subordinated notes)	(237)	(284)
Unrealized gain on foreign currency on cash balances denominated in Cdn\$	(160)	-
Repayment of debt (non revolving)	(279)	(265)
Maintenance capital expenditures	(340)	(573)
<b>CASH AVAILABLE FOR DISTRIBUTIONS ON IPS</b>	<b>USD 8,262</b>	<b>7,763</b>
Average exchange rate of Cdn\$ to US\$ for the period.	1.1714	1.1549
<b>CASH AVAILABLE FOR DISTRIBUTIONS ON IPS PER IPS UNIT<sup>1</sup></b>	<b>CDN 9,678</b>	<b>8,966</b>
<b>TOTAL DISTRIBUTIONS</b>	<b>CDN \$ 0.346</b>	<b>\$ 0.320</b>
Interest on subordinated notes	CDN 5,171	5,168
Dividends on common shares	CDN 2,539	2,538
	CDN 7,710	7,706
<b>PER IPS UNIT<sup>1</sup></b>	<b>CDN \$ 0.275</b>	<b>\$ 0.275</b>

*Note 1: Calculated based on the weighted average number of IPS outstanding.*

In the three-month period ended March 31, 2007, the Corporation generated cash available for distribution of Cdn\$9.7 million, which exceeded distributions declared in respect of this period by Cdn\$2.0 million. On a per IPS basis, cash available for distribution was Cdn\$0.346 or 25.82% higher than distributions declared of Cdn\$0.275, resulting in a payout ratio of 79.48% as compared to 85.94% a year earlier.

## CONDENSED CONSOLIDATED FINANCIAL HIGHLIGHTS

	1st Q 2007 (\$'000s) (unaudited)	4th Q 2006 (\$'000s) (unaudited)	3rd Q 2006 (\$'000s) (unaudited)	2nd Q 2006 (\$'000s) (unaudited)
NET PATIENT SERVICE REVENUES	41,158	41,983	34,362	36,063
EXPENSES	23,950	24,660	20,750	21,626
DEPRECIATION AND AMORTIZATION	3,720	3,892	4,347	3,474
INTEREST EXPENSE, NET <sup>(2)</sup>	4,778	4,947	4,988	5,034
INTEREST EXPENSE ON MINORITY EXCHANGEABLE INTEREST	1,932	1,705	1,842	1,677
CHANGE IN FAIR MARKET VALUE OF EARLY REDEMPTION OPTION	230	-	-	-
MINORITY INTEREST	5,749	5,879	4,391	4,681
NET INCOME (LOSS) BEFORE GAIN (LOSS) ON FOREIGN CURRENCY AND TAX BENEFIT (EXPENSE)	1,725	900	(1,956)	(429)
GAIN (LOSS) ON FOREIGN CURRENCY <sup>(3)</sup>	964	3,329	96	(2,907)
INCOME TAX EXPENSE	(1,131)	1,135	(665)	(1,070)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>(1,296)</b>	<b>5,364</b>	<b>(2,525)</b>	<b>(4,406)</b>
<b>BASIC &amp; FULLY DILUTED INCOME (LOSS) PER SHARE</b>	<b>\$ (0.055)</b>	<b>\$ 0.173</b>	<b>\$ (0.084)</b>	<b>\$ (0.161)</b>

	1st Q 2006 (\$'000s) (unaudited)	4th Q 2005 (\$'000s) (unaudited)	3rd Q 2005 (\$'000s) (unaudited)	2nd Q 2005 (\$'000s) (unaudited)
NET PATIENT SERVICE REVENUES	36,129	37,052	34,403	25,082
EXPENSES	21,152	22,317	20,785	13,993
DEPRECIATION AND AMORTIZATION <sup>(4)</sup>	3,448	4,096	3,525	2,929
INTEREST EXPENSE, NET <sup>(2)</sup>	4,883	4,774	4,781	3,921
INTEREST EXPENSE ON MINORITY EXCHANGEABLE INTEREST <sup>(4)</sup>	2,025	1,695	1,728	1,358
MINORITY INTEREST <sup>(4)</sup>	4,931	4,869	4,503	3,606
NET INCOME (LOSS) BEFORE GAIN (LOSS) ON FOREIGN CURRENCY AND TAX BENEFIT (EXPENSE)	(396)	(699)	(920)	(725)
GAIN (LOSS) ON FOREIGN CURRENCY <sup>(3)</sup>	(772)	999	(2,820)	(44)
INCOME TAX RECOVERY (EXPENSE)	695	(190)	(1,419)	504
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>(387)</b>	<b>106</b>	<b>(5,159)</b>	<b>(265)</b>
<b>BASIC &amp; FULLY DILUTED INCOME (LOSS) PER SHARE</b>	<b>\$ (0.009)</b>	<b>\$ (0.002)</b>	<b>\$ (0.188)</b>	<b>\$ (0.015)</b>

Note 1: Results of OSH are included from June 21, 2005, the date of its acquisition.

Note 2: Interest expense, net, consists primarily of interest expense on the subordinated notes payable and long-term debt, offset by the interest earned on the cash balances held by the Corporation.

Note 3: Gain (loss) on foreign currency is comprised of unrealized gains (losses) resulting from the translation into US\$ of cash balances and subordinated notes payable denominated in Canadian dollars, and realized and unrealized gains (losses) on the foreign exchange forward contracts (see note 8 to the interim financial statements).

Note 4: Comparative quarterly financial data reflect the changes in the accounting policies outlined in the Financial Instruments section of this MD&A and note 1 to the interim financial statements. The main changes are (i) to increase depreciation and amortization expense, (ii) to include a deduction for the interest expense on Minority Exchangeable Interest Liability, (iii) to decrease minority interest expense, and (iv) to recognize the change in fair value of Subordinated Notes Payable Early Redemption Option commencing in 2007.

***Three months ended March 31, 2007 compared to three months ended March 31, 2006***

Consolidated net patient service revenues (“net revenues”) for the three months ended March 31, 2007 totaled \$41.2 million, which exceeded the same period in 2006 by \$5.0 million or 13.9%. Net patient service revenues increased at all Centers due to a stronger case volume and a more favorable case mix. Revenue growth at Black Hills Surgery Center, LLP and Oklahoma Spine Hospital, LLC was moderated by a higher provision for contractual allowance due to a less favorable case and payor mix.

Consolidated expenses, including salaries and benefits, drugs and supplies, and general and administrative costs increased \$2.8 million or 13.2% compared to the same period in 2006. This increase in operating expenses is largely due to an increase in the number of cases that attract a higher level of drugs and supplies expense, as well as annual wage and salary adjustments and higher employee health insurance premiums.

Operating income (before depreciation and amortization, interest expense, loss on foreign currency translation and minority interest) of \$17.2 million for the three months ended March 31, 2007 exceeded the operating income for the same period a year earlier by \$2.3 million or 15.3% reflecting improved performance at the South Dakota Centers, offset by lower net operating results at OSH.

The decrease in net interest expense for the three months ended March 31, 2007 compared to the same period in 2006 is mainly attributable to increased interest income earned on excess cash balances.

## OPERATING AND FINANCIAL RESULTS OF THE CENTERS

Performance of the Corporation and its ability to make distributions to its unitholders depends on the combined performance of the Centers, in which it holds an interest and from which it receives monthly cash distributions. Therefore, in order to enhance its usefulness, this management discussion and analysis includes a summary of the operating results of each of the four Centers for the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

	Three Months Ended March 31, 2007 (unaudited)		Three Months Ended March 31, 2006 (unaudited)		% Change
	(\$'000s)	% of Net Revenues	(\$'000s)	% of Net Revenues	
<b>Net revenues:</b>					
Black Hills Surgery Center, LLP	14,655		11,713		25.1%
Sioux Falls Surgical Center, LLP	12,882		11,345		13.6%
Dakota Plains Surgical Center, LLP	2,736		2,453		11.6%
Oklahoma Spine Hospital, LLC	10,885		10,618		2.5%
<b>Salaries and benefits:</b>					
Black Hills Surgery Center, LLP	3,390	23.1%	2,999	25.6%	13.0%
Sioux Falls Surgical Center, LLP	2,443	19.0%	2,212	19.5%	10.5%
Dakota Plains Surgical Center, LLP	558	20.4%	649	26.5%	(14.1%)
Oklahoma Spine Hospital, LLC	2,160	19.8%	2,098	19.8%	3.0%
<b>Drugs and supplies:</b>					
Black Hills Surgery Center, LLP	2,178	14.9%	1,830	15.6%	19.0%
Sioux Falls Surgical Center, LLP	2,322	18.0%	1,897	16.7%	22.4%
Dakota Plains Surgical Center, LLP	597	21.8%	568	23.2%	5.0%
Oklahoma Spine Hospital, LLC	3,729	34.3%	3,076	29.0%	21.3%
<b>General, administrative and other operating:</b>					
Black Hills Surgery Center, LLP	1,941	13.2%	1,434	12.2%	35.4%
Sioux Falls Surgical Center, LLP	1,422	11.0%	1,229	10.8%	15.7%
Dakota Plains Surgical Center, LLP	389	14.2%	409	16.7%	(5.0%)
Oklahoma Spine Hospital, LLC	2,198	20.2%	2,246	21.2%	(2.1%)
<b>Income (loss) before interest expense, depreciation &amp; amortization, and other expenses:</b>					
Black Hills Surgery Center, LLP	7,146	48.8%	5,450	46.5%	31.1%
Sioux Falls Surgical Center, LLP	6,695	52.0%	6,007	53.0%	11.5%
Dakota Plains Surgical Center, LLP	1,192	43.6%	827	33.7%	44.4%
Oklahoma Spine Hospital, LLC	2,798	25.7%	3,198	30.1%	(12.5%)

The changes in the components of operating results as shown in the preceding table are discussed below Center by Center.

***Black Hills Surgery Center, LLP (52.95% ownership interest)***

Net revenues for the three months ended March 31, 2007 increased by 25.1% over the corresponding period in 2006, primarily due to a 7% increase in the number of cases performed and growth in the number of larger and more complex cases. Salaries and benefits increased by 13.0% primarily due to annual wage and salary adjustments and an increase in payroll costs to handle the increased caseload. The cost of drugs and supplies, as a percentage of net revenues, decreased to 14.9% from 15.6% a year earlier, primarily due to changes in the types of surgeries performed and cost reductions for certain surgical implants. General, administrative and other operating expenses for the three months ended March 31, 2007 increased by 35.4% compared to the same period in 2006, primarily due to higher bad debt expense.

***Sioux Falls Surgical Center, LLP (51.00% ownership interest)***

Net revenues for the three months ended March 31, 2007 were up 13.6% over the same period in 2006, primarily due to fee increases, an 11.1% increase in the number of cases performed and a favorable shift in the proportion of higher revenue generating cases. Salaries and benefits for the three months ended March 31, 2007 increased by 10.5% compared to the same period in 2006, primarily as a result of the growth in the number of cases performed and annual wage and salary adjustments. The cost of drugs and supplies, as a percentage of net revenues, increased to 18.0% from 16.7% a year earlier, due to a higher proportion of complex cases that incur higher costs of supplies and implants. General, administrative and other operating expenses for the three months ended March 31, 2007 increased by 15.7%, primarily due to bad debt expense and surgical equipment repair costs.

***Dakota Plains Surgical Center, LLP (51.00% ownership interest)***

Net revenues for the first quarter of 2007 increased by 11.6% over the same period in 2006. A 10.2% decrease in the number of surgical cases performed was more than offset by a more favorable payor mix and growth in the number of higher revenue generating cases and non-surgical procedures performed. The cost of drugs and supplies, as a percentage of net revenues, decreased to 21.8% from 23.2% a year earlier, primarily due to a decrease in the number of higher cost hip and knee implant surgeries.

***Oklahoma Spine Hospital, LLC (51.75% ownership interest)***

Surgical case volume for the three months ended March 31, 2007 increased by 5.5% while pain management procedures declined by 17% from the same period a year earlier. While the average billing per pain management procedure, which is typically much lower than the average billed per surgical case, increased significantly over a year earlier, total net revenue only increased by 2.5% over the same period a year earlier. Primarily as a result of these changes in the revenue profile, the cost of drugs and supplies as a percentage of net revenue increased to 34.3% from 29.0% a year earlier. Salaries and benefits for the three months ended March 31, 2007 increased by 3.0% due to annual wage and salary adjustments and higher employee health insurance premiums. General, administrative and other operating expenses for the three months ended March 31, 2007 decreased by 2.1% compared to the same period in 2006 due to a decrease in bad debt expense, as well as a decrease in administrative and accounting fees.

## LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

The Corporation is dependent upon cash generated from operating activities of the Centers, which is the source of financing for its operations and for meeting its contractual obligations. The Centers distribute, on a monthly basis, substantially all of their cash flows to the Corporation and the minority partnership interests. A reconciliation of cash provided by operating activities as reported to cash available for distribution is presented in the section Non-GAAP Financial Measure – Cash Available for Distribution.

Dividend declarations are determined based on monthly reviews of the Corporation's earnings, capital expenditures and related cash flows. Such declarations take into account the Corporation's structure whereby available cash is to be distributed to the maximum extent considered prudent after (i) interest on the subordinated notes, (ii) other debt service obligations, (iii) other expense and tax obligations, and (iv) reasonable reserves for working capital, collateral for hedge contracts and capital expenditures.

As at March 31, 2007, the Corporation had net working capital of \$42.4 million, including cash balances of \$18.6 million and patient accounts receivables of \$26.8 million. Accounts payable and accrued liabilities totaled \$8.0 million. Total assets at March 31, 2007 were \$303.5 million and total long-term liabilities were \$158.6 million. Cash distributions declared in the period from January 1, 2007 to March 31, 2007 totaled Cdn\$0.275 per IPS.

The Centers have in place credit facilities and notes payable in an aggregate amount of \$36.5 million, of which \$25.4 million was utilized as at March 31, 2007. The balances available under the credit facilities, combined with cash on hand as at March 31, 2007, are available to manage the Corporation's accounts receivable, inventory and other short-term cash requirements, including funding of U.S. withholding taxes.

The Corporation's subordinated notes payable are denominated in Canadian dollars and are reflected in the financial statements in US dollars at the rate of exchange in effect at the balance sheet date. These subordinated notes will mature on March 29, 2014, subject to the Corporation's right to extend their maturity for two additional successive five year terms provided certain conditions are satisfied at such times.

The following table sets out the mandatory repayments due under the credit facilities, notes payable and other contractual obligations, but does not include the Minority Exchangeable Interest Liability, which is further described in note 1 to the interim financial statements for the three month period ended March 31, 2007:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
<i>(US\$ thousands)</i>					
Revolving Credit Facilities	10,714	-	3,470	7,244	-
Notes Payable & Term Loan	14,632	1,528	4,309	8,795	-
Capital Lease Obligation	247	247	-	-	-
Operating Leases & Commitments	16,321	1,866	4,424	4,020	6,011
IPS Subordinated Notes Payable <sup>(1)</sup>	143,590	-	-	-	143,590
<b>Total Contractual Obligations</b>	<b>\$185,504</b>	<b>\$3,641</b>	<b>\$12,203</b>	<b>\$20,059</b>	<b>\$149,601</b>

*Note 1: IPS Subordinated Notes Payable are reflected in the financial statements net of deferred financing costs of \$8,878.*

The Corporation expects to be able to renew or refinance the various credit facilities as they come due at then current market rates.

## FINANCIAL INSTRUMENTS

### Foreign Exchange Forward Contracts

The Corporation enters into forward foreign exchange contracts to manage the Corporation's exposure to fluctuations in the exchange rate between U.S. and Canadian currencies, which exposure arises from payment of interest and dividends on its IPS and payment of certain corporate expenses being made in Canadian dollars.

As at March 31, 2007, the Corporation is committed to deliver between \$2.0 and \$2.5 million U.S. dollars monthly through April 2010 in exchange for Canadian dollars at stipulated exchange rates as follows:

Contract Dates	US\$ to be delivered (\$millions)	Cdn\$ to be received (\$millions)	Cdn\$ per US\$ (Weighted Average)
Apr 2007 – Mar 2008	24.1	30.1	1.2490
Apr 2008 – Mar 2009	26.2	30.6	1.1679
Apr 2009 – Apr 2010	<u>31.7</u>	<u>35.3</u>	1.1136
	<u>82.0</u>	<u>96.0</u>	

The fair value of the outstanding contracts as at March 31, 2007 was \$2.1 million and is reflected as an asset in the financial statements while changes in the fair value during each reporting period are recorded as unrealized gains (losses) in the income statement. It is the Corporation's intention to maintain these contracts in place until their scheduled maturity dates, at which time gains (losses) on the matured contracts are reflected in the consolidated income statement.

The Corporation has provided collateral in the amount of \$4.5 million US dollars to secure performance under these contracts.

### Changes in Accounting Policies

As more fully described in note 1 to the interim financial statements, effective January 1, 2007, the Corporation adopted: (i) recommendations for accounting for Financial Instruments as contained in new Sections 3855 *Financial Instruments – Recognition and Measurement* and 3861 *Financial Instruments – Disclosure and Presentation* of the CICA Handbook, (ii) recommendations of Section 1530 *Comprehensive Income* of the CICA Handbook, and (iii) the liability method of accounting for the exchange rights held by the minority interests in the Corporation's subsidiaries.

Adoption of the recommendations for accounting for Financial Instruments has resulted in the separate presentation in the financial statements of the fair value of the Early Redemption Option related to the Subordinated Notes Payable commencing in the first quarter of 2007.

Under the liability method of accounting for the exchangeable interests, which was adopted retroactively as a change in accounting policy without restatement of previously issued financial statements, the granting of the rights under the exchangeable interests is treated as a purchase of an additional interest in the Centers with an offsetting liability to the exchangeable interest holder, as described in note 1 to the interim financial statements.

The Corporation has no items requiring classification as Comprehensive Income; therefore, no Statement of Comprehensive Income is presented.

Management does not expect the changes described above to have any material impact on the cash available for distribution to IPS holders.

## **RELATED PARTY TRANSACTIONS**

Physicians, who control the minority interests in each of their respective Centers, routinely provide independent professional services directly to patients utilizing the facilities of the Centers. Note 5 of the Corporation's consolidated financial statements for the three months ended March 31, 2007 contains details of transactions with related parties for the current and prior periods.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Management estimates are required with respect to the valuation of financial instruments, acquired assets and liabilities, intangible assets, goodwill, accounts receivable, inventories and provisions for potential liabilities, determination of net revenue and income tax provisions, as well as periods to maturity of its financial instruments.

Net revenue of the Corporation includes amounts for services billed to federal and state agencies, private insurance carriers, employers, managed care programs, and patients. Billed revenues are recorded net of the estimated contractual adjustments provided for under the various agreements with the majority of these third party payors. Management establishes the contractual allowance adjustments and allowances for doubtful accounts based on third party contracts in effect and based on historical payment data, current economic conditions, and other pertinent factors for each Center.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

### **Internal Controls over Financial Reporting ("ICOFR")**

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Corporation have designed internal controls over financial reporting or have caused them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

During the design process, possible control weaknesses were identified such that a material misstatement or fraud might not be prevented. Due to the limited number of staff at the corporate office, it is not possible to achieve complete segregation of duties and maintain adequate user access controls. In addition, the finance personnel do not have all the technical knowledge to address complex and non-routine accounting issues, including the identification of differences between US and Canadian GAAP (as Centers maintain their accounts under US GAAP and the Corporation reports under Canadian GAAP) and the calculation of and accounting for income taxes.

Management has evaluated whether there were any material changes to the Corporation's ICOFR since year-end 2006 and determined that there were no changes that have materially affected, or are reasonably expected to affect, its ICOFR.

## **RISK FACTORS**

### **Risks Related to the Business and the Industry of the Corporation.**

The revenue and profitability of the Corporation and its subsidiaries, including the Centers, depend heavily on payments from third-party payors, including government healthcare programs (Medicare and Medicaid) and managed care organizations, which are subject to frequent cost containment initiatives. Changes in the terms and conditions of, or reimbursement levels under, insurance or healthcare programs,

which are typically short-term agreements, could adversely affect the revenue and profitability of the Corporation. The Corporation's revenues and profitability could be impacted by its ability to obtain and maintain contractual arrangements with insurers and payors active in its service area and by changes in the terms of such contractual arrangements.

The revenue and profitability of the Centers is dependent upon physician relationships. There can be no assurance that physician groups performing procedures at the Centers will maintain successful medical practices, or that one or more key members of a particular physician group will continue practicing with that group or that the members of that group will continue to perform procedures at the Centers at current levels, or at all.

Healthcare facilities, such as the Centers, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Receipt and renewal of such licenses, certifications and accreditations are often based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative compliance actions by the Centers that could be burdensome and expensive.

There are a number of United States federal and state regulatory initiatives, which apply to healthcare providers, and in particular specialty hospitals, including the Centers. Among the most significant are the federal Anti-Kickback Statute, the federal Stark Act, and the federal rules relating to management and protection of patient records and patient confidentiality. New legislation or amendments to existing legislation could be enacted in the future, which could materially impact the operations and/or economic viability of surgical hospitals, including the Centers.

While the Centers carry general and professional liability insurance against claims arising in the ordinary course of business, the insurance market is dynamic and there can be no assurance that adequate coverage will be available in the future, nor that any coverage in place will be adequate to cover claims.

Any expansion of the Centers will require additional capital, which may be funded through additional debt or equity financings. These funding sources could result in significant additional interest expense or ownership dilution to current holders of the Corporation's securities. Additionally, the complex regulatory requirements to which the Centers are subject may limit their ability to expand.

There is significant competition in the healthcare business. The Centers compete with other healthcare facilities in providing services to physicians and patients, contracting with managed care payors and recruiting qualified staff.

### **Risks Related to the Structure of the Corporation**

The Corporation is solely dependent on the operations and assets of the Centers through the indirect ownership of between 51% and 52.95% of these Centers. Future distributions by the Corporation are not guaranteed and are totally dependent upon the operating results and related cash flows from the Centers.

The payout by the Centers and the Corporation of a substantial majority of their operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future.

The Corporation's distributions to its security holders are denominated in Canadian dollars whereas all of its revenue is denominated in US dollars. To the extent that future distributions are not covered by foreign currency exchange contracts, the Corporation is exposed to currency exchange rate risk.

Interest on the Corporation's subordinated notes will be deducted for purposes of calculating taxes payable in the United States by the Corporation. There can be no assurance that US tax authorities will not seek to challenge the treatment of these notes as debt or the amount of interest expense deducted.

This would reduce the Corporation's after-tax income available for distribution, thereby reducing the Corporation's ability to declare dividends.

There can be no assurance that the Corporation will be able to repay the principal amount outstanding on its subordinated notes payable when due. Additionally, the subordinated notes are payable in Canadian dollars. Therefore the Corporation is exposed (at maturity and/or repayment) to currency exchange rate risk with respect to the principal amount of this indebtedness.

The limited cash flow guarantees provided by each Center with respect to the interest payments on the subordinated debt may not be enforceable, thereby reducing the cash available for payment of interest on the subordinated debt. Non-competition agreements executed by physician owners of the minority interests in the Centers may not be enforceable, which lack of enforceability could impact the revenues and profitability of the Centers.

The Corporation does not have the ability to direct day-to-day governance or management inputs in respect of the Centers, except in certain circumstances.

The degree to which the Corporation is leveraged on a consolidated basis could have important consequences to the holders of the IPS, including:

- (a) The Corporation's and Centers' ability in the future to obtain additional financing for working capital, capital expenditures, acquisitions or other purposes may be limited. Under the terms attaching to the Corporation's subordinated notes payable, the Corporation's ability to incur additional debt, including the issue of IPS, which contains a debt component, is dependent upon the Corporation meeting certain pro forma financial ratios at the time of incurring the additional debt.
- (b) The Corporation or Centers being unable to refinance indebtedness on terms acceptable to the Corporation or at all.
- (c) A significant portion of the Corporation's cash flow (on a consolidated basis) from operations is likely to be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations, capital expenditures, acquisitions and/or dividends on its common shares.
- (d) The Centers may be vulnerable to economic downturns and limited in their ability to withstand competitive pressures.

The Corporation has credit facilities that contain restrictive covenants that limit the discretion of the Corporation or its management with respect to certain matters. The ability of the Centers to make distributions will be subject to the restrictive covenants contained in each credit facility.

Additional IPS or common shares may be issued by the Corporation pursuant to an Exchange Agreement with the holders of the minority interests in the Centers or in connection with a future financing or acquisition by the Corporation. The issuance of additional IPSs or Common Shares may dilute an investor's investment in the Corporation and reduce distributable cash per Common Share or per IPS.

The Corporation's subsidiary, which holds the interests in the Centers, is organized under the laws of the State of Delaware. The Centers that are located in South Dakota are formed under the laws of the State of South Dakota and the Center that is located in Oklahoma is formed under the laws of the State of Oklahoma. All of the assets of the Centers are located outside of Canada and certain of the directors and officers are residents of the United States. As a result, it may be difficult or impossible for investors to effect service within Canada upon the Corporation's subsidiary, the Centers, or their directors and officers

who are not residents of Canada, or to realize against them in Canada upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws.

There can be no assurance that the common shares and subordinated notes represented by the IPSs will continue to be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans.

The market price for the IPS may be subject to general volatility.

On October 31, 2006 the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. The proposed new rules do not apply to the Corporation or to distributions made by it. However, there can be no assurance that amendments will not be introduced when the legislation is enacted, which may affect the application of the rules to the Corporation.

For further discussion of the foregoing and other risk factors reference should be made to the Corporation's Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Corporation's website at [www.medicalfacilitiescorp.com](http://www.medicalfacilitiescorp.com).

## **OUTLOOK**

The Corporation continues its focus on providing high quality health care services, enhancing the experience of patients, and offering expanded and new services. Management believes the Corporation will continue to benefit from the increasing demand for healthcare services in the United States, which continues to be positively impacted by changing demographics (increasing average age and life expectancy), and advances in science and technology. Nonetheless, there will continue to be industry-wide pressures on reimbursement programs to limit the escalation in healthcare costs.

Management believes that the aforementioned trends are reflected in its results for the first quarter of 2007, which saw revenue growth ranging from 2.5% to 25.1% at its four centers. A number of factors, in addition to pure volumetric measures, (e.g. case severity, types of cases, payor mix, etc.) affect revenues and operating income performance at the individual center level and as between fiscal quarters. Subject to these variances in seasonal and center performance, Management expects that these trends will continue and the Corporation's overall performance for fiscal 2007 will continue to exhibit revenue and operating income growth, though possibly at more moderate levels than recorded in the first quarter of 2007.

The Corporation's payout ratio for the most recent twelve months now stands at 83.94%, down from 90.30% for the twelve months ended March 31, 2006. Management believes that the expected revenue and operating income growth, referred to above, will mitigate some or all of the negative impact on the payout ratio over the next three years from exchanging U.S. dollars into Canadian dollars at rates established under the Corporation's hedging program.

The Corporation intends to continue its strategies of enhancing the operating efficiency of the four Centers, pursuing acquisitions and continuing the cash distribution practices referred to in Liquidity, Capital Resources and Financial Condition section of this MD&A.

News release via Canada NewsWire, Toronto 416-863-9350

Attention Business Editors:  
Notice of Medical Facilities Corporation's Fiscal 2007 First Quarter  
Financial Results Conference Call and 2007 Annual Meeting of  
Shareholders

/NOT FOR DISTRIBUTION TO UNITED STATES NEWSWIRE SERVICES OR FOR  
DISSEMINATION IN THE UNITED STATES/

TORONTO, May 7 /CNW/ - Medical Facilities Corporation (TSX:DR.UN) (the  
"Corporation") will release its 2007 first quarter financial results prior to  
market opening on May 11, 2007. Following the release, Management of Medical  
Facilities will host a conference call on May 11 at 9:00 a.m. (EST) to review  
the financial results. All interested parties are invited to participate. You  
can join the call by dialing 416-644-3417 or 1-800-732-9303. Please call in  
15 minutes prior to the call to secure a line. You will be put on hold until  
the conference call begins.

Dr. Donald Schellpfeffer, Chief Executive Officer, and Michael Salter,  
Chief Financial Officer, will chair the call. A question and answer session  
will follow, at which time the operator will direct participants as to the  
correct procedure for submitting questions. A taped replay of the conference  
call will also be available until Friday, May 18, 2007 by calling  
1-877-289-8525 or 416-640-1917, reference number 21227170, followed by the  
number sign.

A live audio webcast of the conference call will be available through  
www.newswire.ca. Please connect at least 15 minutes prior to the conference  
call to ensure adequate time for any software download that may be needed to  
listen to the webcast. An archive of the webcast will be available for  
90 days.

The Corporation's 2007 first quarter financial statements and  
Management's Discussion & Analysis, for the three month period ended March 31,  
2007 will be filed with SEDAR following the release and will be available via  
MFC's web site at www.medicalfacilitiescorp.ca

2007 Annual Meeting of Shareholders

Medical Facilities will hold its 2007 Annual Meeting of shareholders on  
Friday, May 11, 2007 at 11:00 a.m. at the Design Exchange, Patty Watt Room,  
234 Bay Street, Toronto. In addition to the formal business described in the  
Management Information Circular, there will be a management presentation on  
business activities and the Corporation's financial results.

About Medical Facilities Corporation

MFC owns controlling interests in four surgical hospitals, three located  
in South Dakota and one in Oklahoma. The four hospitals perform scheduled  
surgical, imaging and diagnostic procedures and derive their revenue from the  
fees charged for the use of their facilities. The Corporation is structured so  
that a majority of its free cash flows from operations are distributed to  
holders of its IPS with a portion of such distributions being interest  
payments on the subordinated debt component. For more information, please  
visit www.medicalfacilitiescorp.ca

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/For further information: Michael Salter, Chief Financial Officer,  
Medical Facilities Corp., (416) 848-7980 or 1-877-402-7162; Bruce Wigle,  
Investor Relations, The Equicom Group Inc., (416) 815-0700 ext. 228 or  
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(DR.UN.)

CO: Medical Facilities Corporation

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