FINAL TRANSCRIPT

Medical Facilities Corporation

Annual & Special Meeting of Shareholders

Event Date/Time: May 12, 2016 - 2:00 p.m. E.T.

Length: 57 minutes

CORPORATE PARTICIPANTS

Seymour Temkin
Medical Facilities Corporation – Chairman

Britt T. Reynolds
Medical Facilities Corporation – Chief Executive Officer

Michael Salter
Medical Facilities Corporation – Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Alfred Worth
Investor

Paul Dornan
Investor

MEETING OF SHAREHOLDERS

Seymour Temkin – Chairman of the Board

Good afternoon. It is now 2:00 p.m., and I'd like to ask—I would ask that the annual and special meeting of shareholders come to order. Ladies and gentlemen, my name is Seymour Temkin. As our Chair, I would like to welcome you to the 2016 annual and special meeting of shareholders of Medical Facilities Corporation. At the outset, let me introduce the head table. On my left is Mister Britt Reynolds, the new CEO, Chief Executive Officer; and Michael Salter, the Company's CFO, Chief Financial Officer.

I will ask—I will act as the chair of the meeting. I'll ask Michael Salter to ask as the secretary of the meeting and Florence Smith and Marina Salvero (phon) of Computershare to act as scrutineers.

In view of the need to attend to a number of formal matters, certain shareholders or their proxies have volunteered to move and second resolutions where required. While this procedure will facilitate the handling of formal matters, any shareholder or proxy holder may speak on matters when the matter is before the meeting. When I recognize you, please give your name, state whether you are a shareholder or a proxy holder.

The minutes of the last annual general meeting of shareholders, held on May 14, 2015, are here and available for inspection. I am also tabling a copy of the 2015 audited financial statements. These are publicly available, as are the proxy materials and additional copies available here today.

Please note that upon completion of the meeting, the CEO and the CFO will be making a presentation. Following their presentation, they will entertain any questions you may have. Accordingly,

during the formal portion of this meeting, I'd ask you to limit your questions and discussions to the matters directly related to the specific matters being considered.

Shareholders have been provided with notice and proxy materials for this meeting in accordance with applicable laws and additional copies are available here today. I have been advised by the scrutineers that, prior to the meeting, proxies were received from holders of approximately 11,151,000 shares or approximately 35.93 percent of all shares entitled to be voted. As a result, we have a quorum for this meeting, and the meeting is properly constituted for the transaction of business. I propose to conduct a vote on all resolutions to put this to the meeting on a show of hands.

We'll now proceed with the formal part of the agenda.

First item of business for which this meeting has been called is the election of seven Directors to hold office until the next annual general meeting of shareholders of the Company or until their successors are duly elected or appointed. The managing information circular states that there are seven candidates proposed by Management. The secretary will now read their names.

Michael Salter – Chief Financial Officer / Secretary

The names of the nominees are: David R. Bellaire, Marilynne Day-Linton, Stephen Dineley, Irving Gerstein, Dale Lawr, Jeffrey Lozon and John T. Perri.

Seymour Temkin – Chairman

Thank you. Is there any motion concerning the election of the Directors?

Unidentified Speaker

Mister Chairman, I nominate each of the seven persons whose names were read by the Secretary for election as Directors of the Company, to serve until the annual meeting of the shareholders (inaudible) or until his or her successor is duly elected or appointed, or (inaudible)

Unidentified Speaker

I hereby second the nomination.

Seymour Temkin – Chairman

Since there are no further nominations have been received in the required timeline, I declare the nominations closed. Seven persons have been nominated as Directors and there are seven Directors to be elected.

The Board of Directors of Medical Facilities Corporation have adopted what is commonly referred to as a majority voting policy. Under the policy, a Director is required to tender his or her resignation if she receives more withholding votes than votes cast for his or her election. Based on the proxies received for the election of Directors, none of the nominees would have tend—have to tender their resignation under Medical Facilities Corporation majority voting policy.

The meeting will now vote on the motion. Will those in favour of the motion please signify by raising your hands.

Those opposed, if any.

I therefore declare that each of the seven nominated Directors whose names have been read by the Secretary have been elected a Director of the Company, to hold office until the close of the next

annual meeting of shareholders or until his or her successor is duly elected or he or she otherwise ceases to hold office.

The next item of business is the appointment of the Directors—of the auditors, sorry. The next item of business for which this meeting has been called is to consider and, if thought appropriate, to approve a resolution reappointing KPMG LLP as auditors of the Company, and authorizing the Company to fix the remuneration of the auditors. In order to be approved, the resolution must be passed by a majority of votes cast thereon. May I have a motion for the approval of this resolution?

Unidentified Speaker

Mister Chairman, I hereby move that KPMG LLP be reappointed auditors of the Company and their remuneration to be fixed by the Board of Directors (inaudible)

Unidentified Speaker

Mister Chair, I second.

Seymour Temkin – Chairman

Is there any discussion?

The meeting will now vote on the motion. Will those in favour of the motion, please signify by raising your hands?

The motion is carried. I declare that KPMG LLP has been reappointed as auditors of the Company in accordance with the motion.

The next item of business—

Before I go on to the next item of business, I'd like the seven Directors who have been elected to stand, for the people who are shareholders can see who has been elected. (Inaudible)

I'd like people to recognize KPMG. (Inaudible)

I'd also like to just ask Goodmans, who are our legal counsel, to stand and be recognized.

Thank you.

Next item of business for which this meeting has been called is to consider and, if thought appropriate, to approve a resolution issuing up to one million common shares of the Corporation under underlying options granted to the new Chief Executive Officer under his employment agreement as more fully described at page 7–8 of the Management Information Circular accompanying the notion of the meeting. In order to be approved as required by the Toronto Stock Exchange, the resolution must be passed by the majority of votes cast thereon. May I have a motion for the approval of the resolution?

Unidentified Speaker

Mister Chair, I hereby (inaudible)

Unidentified Speaker

Mister Chair, I second the motion.

Seymour Temkin – Chairman

Is there any discussion?

Would you come—I think the mike is on.

Alfred Worth

If not, I can figure out how to turn it on, but I see it is. I'd just like to ask—

Seymour Temkin – Chairman

Can you please state your name, and whether you—

Alfred Worth

Yes, of course. Alfred Worth, President, H&W Management, Inc.; personally a shareholder since the IPO, and also in fact representing our clients' shareholdings. I just wanted to ask the Board, and I realize they're sitting behind me, they—but I trust you; that they consider alternatives to using options. I've no objection to Mister Reynolds' being rewarded suitably, but I think it ought to be on the same basis, rather than the originally American issue, as you know, which is causing all these problems and discussions, where if things go well and the price goes up, you make out well, I don't say like a bandit but in some cases that is the case, and if things go badly, well, it's a missed opportunity rather than in fact a real miss. I would favour shares, notional shares, RSUs, I mean there all kinds of ways of doing this, which actually puts the Management into the same situation as the shareholders, or unit holders in the old days, right before this became a—reverted becoming a corporation, rather than sort of essentially a one-way trip, which is what an option is. I'm asking that the Management and the Directors consider alternatives. Thank you.

Seymour Temkin – Chairman

We seriously considered what we did. It was part of the negotiations between the Corporation and Mister Britt Reynolds. He was—he took the chance that options may not even be granted to him, to join this Company. We think it's the right way to reward him under his contract, and we have considered, sir. So, anyone else would like to bring any other matter on this forward?

If not, I'll call for a show of hands, for those that favour the vote of options to Mister Britt Reynolds. Those in favour?

Those opposed?

Those in favour carry.

I declare that the issue of up to one thousand—one million common shares in the capital of the Corporation, underlying the options granted to Mister Britt Reynolds as described in the Management Information Circular accompanying the notice of this meeting, is hereby approved.

Next item of business which has been called is to consider and, thought appropriate, to approve a resolution ratifying and confirming the advance notice policy adopted by the Board, a copy of which is attached to schedule C to the Management Information Circular accompanying the notice of this meeting, with the minor changes further described in the news release of the Corporation dated May 2, 2016. The change relates to the Board's description—sorry. The change relates to the Board's discretion to require certain additional information regarding proposed nominees. In order to be approved, the

resolution must be passed by a majority of the votes cast thereon. May I have a motion for the approval of this resolution.

Unidentified Speaker

Mister Chair, I hereby move (inaudible)

Unidentified Speaker

Mister Chair, I second the motion.

Seymour Temkin – Chairman

Is there any discussion?

The meeting will now vote on the motion. Will those in favour of the motion please signify by raising your hands?

The motion is carried. I declare that advance notice policy as set out in schedule C of the Management Information Circular accompanying the notice of this meeting, as modified in the manner described in the news release of the Corporation dated May 2, 2016 is hereby ratified, confirmed and approved.

The next item of business of which the meeting has been called is to consider, and if thought appropriate to pass, the special resolution approving an amendment to the articles of the Corporation to remove the shareholders' ownership restriction for physicians licensed to practice in the United States and to increase the quorum requirements of the meeting of the shareholders. The full text of the amended articles is set out in schedule D of the Management Information Circular accompanying the

notice of this meeting, with a further change as described in the news release of the Corporation dated May 2, 2016. In order to be approved, the resolution has to be passed by a special majority of not less than two thirds of votes cast thereon. May I have a motion for the approval of this resolution?

Unidentified Speaker

(Inaudible)

Unidentified Speaker

Mister Chair, I second the motion.

Seymour Temkin – Chairman

Is there any discussion?

The meeting will now vote on the motion; will those in favour of the motion please signify by raising your hands?

Those opposed?

The motion is carried. I declare the amendment to the articles of the Corporation, as set out on Page 10 of the Management Information Circular accompanying the notice of this meeting, as modified in the manner set forth in the news release of the Corporation dated May 2, 2016 is hereby approved.

Is there any other business to come before the meeting? Anyone else wish to raise any matter? If there is no further business, may I ask for a motion to terminate the meeting?

Unidentified Speaker

Mister Chairman, I move that the meeting be terminated.

Unidentified Speaker

Mister Chair, I second the motion.

Seymour Temkin – Chairman

All those in favour, please signify?

I declare the meeting now terminated.

I would now like to ask Britt Reynolds and Michael Salter, Company CEO and CFO, to make a presentation and answer your questions. I'd also like to thank you for attending the meeting.

PRESENTATION

Britt T. Reynolds – Chief Executive Officer

Thank you, Seymour, and good afternoon, everyone.

I'm very happy and excited to be joining Medical Facilities Corporation. It has been built on a strong foundation of high quality facilities, exceptional patient care, and a conservative approach to financial management that has resulted in a track record of solid shareholder returns.

This is also a time of challenge and opportunity in the health care industry. There has been considerable movement among U.S. health care providers as they execute on both consolidations and portfolio rationalizations. These are in response to the changing markets, demographics and reimbursement models.

As I become truly integrated at MFC, I will be working with the leadership teams to establish strategies that will allow MFC to continue to deliver value while capitalizing on the significant growth opportunities available.

Before I move to the management presentation, I would like to take a moment to acknowledge our retiring Directors. Doctor Don Shellpfeffer was the founder of Sioux Falls Surgical Hospital in 1985, one of the original three hospitals that formed MFC in 2004, and was instrumental in our formation. Doctor Gil Faclier and Seymour Temkin joined MFC at its inception. All three played a significant role in our success today.

Don co-founded MFC and was our CEO until 2014. His management skill as well as his direct experience in working as a physician at the Sioux Falls facility established the highest standards of patient care and operational efficiency in all of our facilities.

Seymour has served Chairman for many years, and most recently as interim CEO. The results I'll be discussing a bit later are a result of his stewardship and the shareholders have benefited from his expertise and his leadership. I've already been working with Seymour as I transitioned into this role, and I will continue to value his advice as he continues to serve with us as a consultant.

MFC has benefited from Gil's years of service in medical and health care administration. He also was a long-standing member of the compensation, nominating and corporate governance committee.

I am honoured to carry on their legacy and build on the foundation which they have laid. Please join me in thanking them for their contributions to MFC.

Before I begin the management presentation, I would like to remind you that some of our statements could be considered forward-looking, and this disclaimer applies to all such statements.

Slide 8, the highlights. One of the reasons I was attracted to Medical Facilities Corporation was its long track record of solid operational and financial performance, and 2015 was no different. In 2015, we saw continued growth in both revenue and income from operations, and as we closed the year in 2015, we paid the 143d consecutive dividend to our shareholders. We further decreased our pay-out ratio to a conservative 77 percent and continued our share buy-back program. Since we started this program we have repurchased and canceled over one million shares, and we expect to continue this program through 2016 as market conditions permit.

Let me walk you some of the specifics of our results.

Revenue. We achieved revenue of $309 million in 2015, a 4 percent increase over 2014. We had revenue growth in all of our centres, attributable to higher case volumes. Surgical cases, a large portion of which were outpatient, increased by 4.5 percent. We also experienced a 6.6 percent increase in pain management procedures. We continue to benefit from the cases previously that were uninsured and are now considered as a result of the Patient Protection and Affordable Care Act. Since 2011, we have achieved a 9.3 percent compound annual growth rate in revenue.

Income from operations. We had an even stronger growth in income from operations in 2015, with a 12 percent increase from 2014. We also made strides in controlling our operating expenses, as

shown by our operating margin improvement: 24.2 percent of revenue in 2015, compared to 22.4 percent in 2014.

Cash flow. Cash attributable for distribution for the full year in 2015 was $46 million Canadian, an increase of $4.5 million Canadian compared to the full year of 2014. In U.S. dollar terms, we experienced a slight decrease of $1.6 million to cash available for distribution, to $35.9 million. In 2015, our cash available for distribution was impacted by higher foreign exchange losses on the foreign exchange forward contracts. These have all now matured and we have no hedges in place. Overall our cash available for distribution resulted in a favourable 2015 pay-out ratio of 76.7 percent, compared to 85.2 percent for 2014.

Two thousand and fifteen was another strong year, and 2016, our investment proposition remains strong. We will continue to look to deliver consistent distributions to our shareholders, generated from our stable cash flows. We have high quality facilities that combine the best patient experience and hospital care. Additionally, they are located in economically strong regions. The U.S. healthcare industry, particularly the private hospital and ambulatory care segments, are experiencing rapid growth and consolidation trends. We have the skills and experience to capture that growth.

As I said earlier in my presentation, my primary focus is to further refine our strategy.

Core to that growth is to maintain high quality facilities that support superior patient outcomes and optimal experience.

Over the past year, we have continued in our initiatives to reinvest in our business and service offerings to further strengthen our presence in core markets. In South Dakota we've made investments in urgent and primary care, which have begun to positively impact our results.

We remain focussed on recruitment and expansion, along with enhancing the services provided by our physicians. Recruiting highly skilled physicians and staff demonstrates our commitment to provide our patients with high quality care.

I would like to thank you for your time today, and I'm excited in what we can achieve in MFC. I look forward to reporting our progress going forward.

I will now hand the presentation over to our CFO, Michael Salter, to discuss our first quarter results.

Michael Salter – Chief Financial Officer

Thanks, Britt. Welcome, ladies and gentlemen, to our AGM. This'd be the 12th one, I guess, that I've been present at. Make sure all the things work here properly.

Our first quarter 2016 results were released earlier this morning and in this quarter we continued the revenue growth trends seen in 2015, but with a greater impact on our operating expenses on our results. So, with that—okay, there we go.

I'd like to turn attention to this slide. The numbers, very easy to see. We did. We took our revenues up from $72.2 million up to $75.9 million, and I think it's an encouraging trend to see that. Our case counts were up, and I always like to go back when I talk to the results in this business. There's three

things on the revenue side that always drive our results. Those are the number of cases, that makes sense, pretty basic. There's what we call case mix, the type of cases that we do. Keep in mind that in our hospitals, and it varies by which one of our four hospitals and our ambulatory surgery centre, but we do cases running the gamut from probably a tonsillectomy on a young child that takes two to three minutes to serious joint replacement surgeries that can take upwards to an hour depending on the circumstances. So, that case mix, another factor that really comes into play every time we look at our results, our periodic results. The third one, for those of you who know, unlike here in Canada, our system in the U.S. health care system is funded by what's called a multi-payer system. All my good American friends tell me, well, it's a private system, not like up in Canada, but that's not quite true. It's a mixed system in the United States, a very very mixed system, running the gamut from old fogeys like my self who got my Medicare cards a year and a half ago, through to private pay which is typically funded by employers. The only lesson that you really have to take away from that is, we get different amounts of money for the same case, and it all depends on who's paying the bill. Uncle Sam usually is at the lower end of that case. So, if you think about that in terms of our operating results, our revenues, our expenses against them, you can very quickly understand the interrelationships that are at play between those three major components, and when you look on the expense side, salaries and benefits obviously, it—a little bit direct correlation to the number of surgeries we do, and the types of cases that we do, the acuity of those cases.

Drugs and supplies, and supplies read implants. Again, keep in mind, when you consider our results, as the body gets older, you need more parts replaced, and there's lots of implant manufacturers providing those implants to keep us youthful, I guess, in our ability to carry out our daily tasks. And G&A.

So, those are the interrelationships at play in that. What we saw in this quarter was, we did. We had case counts up, good news. We had a much higher amount of Medicare-funded cases; that's not quite so good news; it's good news to have the cases, but the revenue you're getting from them is a bit less. So—but you still have expenses, I mean you still put—it's still the same cost to put a new hip in a 68-year-old as it is into a 45-year-old when it comes to the hardware, with some exceptions to that, which I won't get into.

So, when you think about that through to operating margins, and you had said, “Well Michael, your operating margins are down this quarter,” and they are, a little bit of a disappointment to us, but you'd say okay, then you can start to understand the dynamics that are in behind us and working. I would say to you that we are very focussed on that at our centres, with our centre managements, looking at that to make sure that we do operate. As Britt says, number one is patient safety, patient outcomes, and we want to do it efficiently. Efficiently goes to the bottom line.

So with that, the consolidated income for this year was $14.8 million, that's a 8.4 percent decline partly due to that, from the first quarter of 2015. But as we've communicated in previous calls, quarterly results will vary for these reasons that I've laid out for you today.

On a trailing 12 month basis, and I guess this is where I do take some solace in our results for this quarter, consolidated income from ops was $73.3 million compared to $74.7 million, so, relatively level. Consolidated income was impacted by increases in those operational expenses we've talked about, and together these caused the operating margin to decline to 19.5 percent.

Cash available for distribution in the first quarter, $11.9 million, a 6.3 percent increase as Britt indicated. We are out of the hedging program we were into, and of course that reflects the weakness of the loonie, albeit that it has come back a little bit lately. Our pay-out ratio, which is the fall-out from the cash available of course, a very respectable 73.2 percent compared to 78.5 percent we recorded in Q1 of 2015.

I like to go on to this one slide, and I always ad-lib this part. We talk about our financial position, and one of the things you've heard from us is, we feel we are in a very strong financial position to move forward, to accomplish some of the things we would like to accomplish. We do, we have good cash balances. You see that in this slide. Typically on the finance patch, everybody likes to talk about net debt to equity, and we do the calculation, same as everybody else does, and it's a very respectable 47.9 per cent. At our—when you look in our balance sheet, because everything is consolidated, you see we do have some $73 million, we always—I like to set aside an amount of that to say that it's a part that is not available to us because our hospitals do have significant minority interests in them, that being our physician partners and the physician owners in them, and therefore that cash, part of that belongs to them too, so. Always like to say, well, when you look at the 73.8, and we do give you the numbers in our

MD&A that you can look at to see how much of that cash is really available to the Corporation. Other current assets and non-current assets, I won't talk to.

So, the debt side, that's where this really comes down to. At—again, at the hospital level we have about $40 million worth of debt. I like to look at that a little bit differently for the same reason, because there is that large minority interest in the debt, and part of their profit is also helping to fund and service that debt, just as part of MFC's share of that profit is. We do a little calculation down on the right here, and I always like to use that with my banking friends and say, hey, the profits that—or the cash flows that come from our operations really is 2.6 times the coverage, the debt coverage, it's fantastic, it's really good.

Corporate-level debt, as I'm sure you're all aware, we only have one layer, one tranche of corporate debt outstanding at the moment, and that's our convertible debenture, and I'm sure some of you may be holders of that debenture in addition to or in lieu of our common shares, so. I think the message to take home from this is, MFC remains in a very, very strong financial position.

With that I'd now like to turn the podium back to Britt and we'll be more than delighted to answer your questions.

Q & A

Britt T. Reynolds – Chief Executive Officer

All right, thank you, Michael.

Let me ask the audience if there are any questions on the materials and presentation that any of us have discussed today or any further questions that we can answer on any topic relevant to the organization. Yes sir.

Paul Dornan

Hi, I'm Paul Dornan from Burlington. Okay, as of June last year, you sold one hospital, 65 percent owned, that's a fair chunk of wind taken out of the sails. Where is that money going to go? Are you going to buy into another hospital? That's one question. My second question is, why do you insist on ownership interest being just over 50 percent? Is there a reason why you don't completely own a hospital? Thirdly, why are you incorporated in British Columbia and not in Ontario?

Seymour Temkin – ex-Director

So, I think it's unfair to ask Britt the question because he wasn't there. I will answer your question, sir.

So, the first question is, yes, we did sell a hospital. We felt that the hospital really had peaked out, it had limited growth, and we were offered a very good price. Yes, we do intend to take that money and re-employ it in a new hospital with greater opportunities.

Paul Dornan

Okay.

Seymour Temkin – ex-Director

Answer your third question is why we incorporated in British Columbia than Ontario? British Columbia is a more modern up-to-date corporate stature. It enables us to not have Ontario residencies who are directors. It's just more flexible …

Paul Dornan

Okay, I understand.

Seymour Temkin – ex-Director

… but it has the same corporate good governance of—as Ontario. We do have good corporate governance. Your second question, if you'll just repeat it again?

Paul Dornan

Why are you focussed on 55 to 60 percent interest in hospitals? How about owning the whole hospital?

Seymour Temkin – ex-Director

Well, our structure is that we want partners who operate the hospital. So we don't actually operate the hospital, and as a matter of fact we have CEOs from all our operating hospitals, and I was amiss in not asking them to stand, so Blake, if you would stand, and Blake who's the CEO of Sioux Falls, Bill May who's the CEO of Black Hills, which is next to you on this side, and Kevin Blaylock which—he had to catch a plane, so he's not here, and Kerry Helm is in Arkansas. So, these people run the hospitals, they

invest with us, they know what they do, we think they're the best in class, and we want them to have a sizable stake in decision-making.

Paul Dornan

How is their investment structured? Do they own a smaller percent of medical facility shares?

Seymour Temkin – ex-Director

We have just removed the restriction for them now to own ownership in medical facilities. Up to today, they could only own indirectly, by being a partner with us. Now they can own medical facilities. So, none of the hospitals, none of the physicians actually own anything directly into medical facilities.

Paul Dornan

They've just invested money directly into it, is that the idea, or—?

Seymour Temkin – ex-Director

They've—their investment is in a partnership or an LLC which they own 49 percent or 44 percent of.

Paul Dornan

The doctors and administrators—

Seymour Temkin – ex-Director

But every dollar we put in from externally, we invest in externally, they meet us whatever their proportional share is.

Paul Dornan

And that partnership is comprised of doctors and employees, is it, or—?

Seymour Temkin – ex-Director

It's mainly doctors. In the holco, mainly doctors. But the—you will be pleased to know that in Sioux Falls a lot of the nurses and everything do own our stock.

Paul Dornan

Thank you.

Seymour Temkin – ex-Director

A difficult question.

Unidentified Speaker

First of all, congratulations on a great tenure as Chairman of this Company. I've enjoyed my ownership for a long time. But as most investors I tend to be a little bit more forward-looking than looking at past results. As a practical matter, at what level of capacity are current facilities running? In other words, can there be significant revenues generated from existing facilities? Secondly, what is the vision to the future in terms of growing the Company? Thank you.

Seymour Temkin – ex-Director

So, I will answer you. Capacity is a difficult number. We are all—the centres and the CEOs of the centres are more aware of the capacity than—and it's a daily challenge for them. Sioux Falls, for example, is—I would say it's at about 85 percent capacity of its normal hours, but now they're thinking of actually working on Saturday or even working on Sunday or even stretching their hours after 3 o'clock

to 5 o'clock; and so capacity is stretchable. In Sioux Falls we are—they are going ahead to restructure some of the operating rooms so that they are actually having a greater capacity, and so we don't see in the short term hitting the ceiling. It's something that they seem to manage to push through greater capacity by stretching their hours, coming starting early, working on Saturday and Sunday. Oklahoma for example, in December, work every Saturday to increase the capacity level.

As far as—I mean, one of the reasons that Britt was brought on, we are now reached the stage where we need full time Management, he's a full time CEO, he will be (inaudible) the management platform, and I think you will see a much greater emphasis on acquisitions in the future.

Britt T. Reynolds – Chief Executive Officer

I would just echo. I've only been on the job for a matter of just a few weeks, but part of the challenge of the Board both and me accepting the role as well as answering your question here would be to form that vision which obviously I'm listening to our leaders and our operators as well as our physicians, and invariably our shareholders, and formalizing a specific strategy, going forward. I will tell you that, as Seymour alluded, we are in a good financial position. Acquisitions surely seem opportune, as I've mentioned in my remarks, and I believe that there are ample opportunities in various sectors of the health care system in the U.S. that we can and should be invested in. We've been more deliberate about that, going forward. I'd be remiss to say much more than that, because I would not want to say something out of turn just yet.

Unidentified Speaker

What is the probability of deconsolidating? I think you're looking at not only acquisitions, I guess, but also at (inaudible).

Seymour Temkin – ex-Director

Our job as Directors is to work for you, and create shareholder value. Like everybody who owns a stake in a company and its management, we think this Company is undervalued. But if someone came and offered us what we felt was a significant shareholder premium, we would look at that. So, we've not said to the Street, “we're not for sale, don't send us a bid.” In the public market, everything is for sale. I mean, you wouldn't like us to sell the stock at $17, you'd want at least a premium on your stock. I can tell you that that's part of the alternative value of creating shareholder value, is to look at that alternative.

Eric?

Unidentified Speaker

Is there any thought of (inaudible)

Seymour Temkin – ex-Director

Well, we put out a policy that we no longer will hedge. Really that's because we take a position that the Canadian dollar reached a height that was unique, in my opinion, and it will never run ahead of our possible earnings. The reason we got into the hedge was because it was forced on us at the IPO stage, and that there was the fear that the Canadian dollar was appreciating faster than we could earn

income. The view today is that our income would outstrip any appreciation the Canadian dollar. While I don't want you to bet on this but I don't see the Canadian dollar ever getting back to $0.90 in the next 10 years.

But that's a private view.

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

It's certainly been considered. It is considered. It's not that we've not looked at it …

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

Well, there's a new Board; fortunately I don't have to make that decision. I'll leave it to the new Board to make the decision, but I can assure you that this Board is constantly looking, how do we grow a better mouse-trap, and more important how do we be transparent to you, how do we act in your best interest, and really we run as a Board of Directors and Management as if it's our own money, and it's not a third party money, and it's not someone's given us the money, we can do what we like with it, we have a fiduciary position. So, that's constantly at our Board meetings. But I thank you for the reminder. They're all here, so they've heard you loud and clear. Maybe next year you can ask them why they haven't done it.

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

Sorry?

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

On what's going around, the new buzz?

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

No. No. No. What it would mean to you, you would have to take the U.S. dollars, convert it at the date you received it into Canadian dollars, and treat it as if you received it in Canadian dollars. You'd have—obviously you have to have a bank account that accepts U.S. dollars; otherwise most broking, if you were to broker, the broker would take it into either your Canadian account or to your U.S. account. There's no tax.

Unidentified Speaker

In that case, (inaudible) 25 percent capitalization TSX (inaudible) suggesting (inaudible) always reported in U.S. dollars. In fact, your executive officers (inaudible) Manhattan, so we have a long history

of being paid in U.S. dollars. Sometimes it's great and sometimes it isn't, but it was a long (inaudible) benefit of doing it (inaudible) it's just (inaudible)

Seymour Temkin – ex-Director

I didn't say it was complicated.

Yes sir.

Unidentified Speaker

(Inaudible) so I had an opportunity to see the third quarter (inaudible) and I was more concerned about (inaudible)

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

Sorry. Did everyone hear the question, by the way?

The question is, why the big increase in the expenses. Is there a concern that this is a—is going to go forward, or is this just a quarter variation?

Michael Salter – Chief Financial Officer

I'll come back to what I was talking about, about the key factors to keep in mind: our volume of cases we do; the types of cases we do; the acuity; and the payer mix; and then some of the costs that go against those, okay? Well, and the costs. Because they're related.

I mean, take for example, I'm trying to think of a good one here I can give you, the numbers are accurate but. You can have a case where you may use an implant. So, you've got a 20—a procedure that may generate 23,000 bucks worth of revenue if it's done on a Medicare patient, that's somebody who—like me, over 65. Okay? If it's done on somebody 10 years younger than I am that has Blue Cross through their employer, that same case may pay, I don't know, $30,000 or $32,000. So, when I said it's a very mixed system in the States, it is. That's what your revenue profile looks like and how it gets impacted. Now, the implant that might be used to do that, and I don't know what it would be, one of my physician friends here can help me but—say it was a hip or a joint, some type of joint. It's probably going to be the same amount of money. I mean, they may use the less expensive one on an old guy like me because I don't need—I'm not going to be out playing tennis every day. But, if you think about it, that number's going to be pretty close. So, say the implant for this $23,000 Medicare procedure is, I don't know, $18,000. So, that means five thou is coming to us that's ending up to pay the rest of the bill, so like for the place to perform the surgery. So, out of that 23, 18 is going to get paid, and that's going to be on our expense line, paid to the implant manufacturer, Medtronics, whoever, Stryker come to mind. So—and then we've got expenses of performing the surgery: nurses, operating room techs etc. Hopefully we get a margin out of it, so maybe the margin's $2,000 on the 23. Okay? But on that person where we collect say the $33,000, say we collect $33,000: $10,000 more. That same implant cost is going to be there; pretty much the same cost of doing the thing; but the margin's going to be much bigger on that one.

So, when we say like, depending on where the source of the funding for the cases we do in that period are done, it's really going to impact your expenses, your expense line, and your margin percentage, both the numbers. So, I don't want to pick on one of our centres here really, but if you look in this quarter at the numbers, the—take the one of our centres here was doing—their percent of revenue, their expenses, was about 80 percent. Year before, it was about 76, 77 percent. So, it went up as a percent; it went up in absolute dollars.

But that's the phenomenon that's at work in it. So, I know it's hard to get your mind around, but it's why we say, over time you will see a change from quarter to quarter because we don't create the demand for surgery, the surgeries are the people have a particular condition and it needs to be attended to. That's what creates the demand. So, we can't—we don't pick and choose. We don't say, well, you, patient A, are going to be funded by Uncle Sam under Medicare. We don't do that. We don't cherry-pick. If the doctor believes—if our physician believes that that patient can be handled safely, within the appropriate risk parameters for things like anesthesia etc., they will likely do the case at our facility. So we do not—we don't cherry-pick. We don't say, well, Michael, you got to go down the street to County General and we'll take somebody where we're collecting more money. So—it changes over time. It really does.

We did see a bump up in our Medicare cases this time around, for a number of different reasons, which I'm sure any of our facility leaders here could tell you, took place this time around. But it likely won't be that way next quarter or the quarter after. So, I would say to you, is there a trend in this?

There may be some elements of a trend, because if you look at demographics simply speaking, yes we are going to see more people being Medicare beneficiaries in the U.S. over—I think the projections out at—probably runs to about 2025, 2030, and then the—it'll shift again as the Baby Boomers go on to their rewards later. But in the meantime—

Britt T. Reynolds – Chief Executive Officer

If I could just interrupt for a second. I would tell you in my years of experience, both as a hospital executive and as a corporate executive over multiple facilities, in any given quarter you're going to have a change, up sometimes down, based on expense management. Sometimes that's a function of—frankly it gets ahead of you. The expense gets ahead of you, you're not matching it on the day-to-day basis. Other times, you're crystal clear on it. I would tell you that my concern, from what I've seen and what I know from 29 years in the health care industry, I don't see concerns on a cost pressure going forward. There is a need for a cost discipline going forward, but I don't see it in one quarter numbers.

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

No. But you—so, if I can try and explain to you as an (inaudible), if you take my implant cost at $10,000, and out of—my commercial payer will pay me $30,000 for that procedure, that's my margin, $20,000. But, what we did have is a shift to Medicare/Medicaid, who only pay us $20,000. So, the margin comes …

Unidentified Speaker

Ten thousand (inaudible)

Seymour Temkin – ex-Director

But that's the expense.

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

No but—it's a proportion rate goes up.

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

No but my—

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

Yes, because I did many more cases.

Unidentified Speaker

(Inaudible)

Seymour Temkin – ex-Director

I did two, now I did 10.

Britt T. Reynolds – Chief Executive Officer

The revenue may not be proportionate.

Michael Salter – Chief Financial Officer

Because remember, your revenues went up in this period, about five-odd million dollars, so there is an increase.

Seymour Temkin – ex-Director

And so, as I'm not going to be next year—

You get it now? Penny drop? Good. Thank you.

Are there any further questions?

So, if there are no further questions, thank you for coming. I think Britt and Michael will stay behind for a few minutes.