

FINAL TRANSCRIPT

Medical Facilities Corporation

2017 Annual and Special Meeting of Shareholders

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Medical Facilities Corporation 2017 Annual and Special Meeting of Shareholders

CORPORATE PARTICIPANTS

Marilynne Day-Linton

Medical Facilities Corporation – Chair of Board of Directors

Britt Reynolds

Medical Facilities Corporation – President & Chief Executive Officer

Tyler Murphy

Medical Facilities Corporation – Chief Financial Officer

Q&A PARTICIPANTS

Paul Vernon

Mike Lipkin

Eric Brewer

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PRESENTATION

Marilyn Day-Linton – Chair of Board of Directors, Medical Facilities Corporation

All right, everybody. It's now 11 AM and I would ask for you to take your seats, please. I'd ask the Annual and Special Meeting of the Shareholders to come to order.

Ladies and gentlemen, my name is Marilynne Day-Linton. As Chair, I'd like to welcome all of you to the 2017 Annual and Special Meeting of Shareholders of Medical Facilities Corporation. At the outset, let me introduce the other gentlemen sitting at my right here at the head table. I have Britt Reynolds, CEO of the Company, and Tyler Murphy, our Chief Financial Officer.

I will act as Chair of the meeting and I will ask Tyler Murphy to act as Secretary of the meeting. Florence Smith and Amy Kam of Computershare Investor Services will 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 proxyholder may speak on a matter when the matter is before the meeting. When I recognize you, please give me your name and state whether you are a shareholder or a proxyholder. Thank you.

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The minutes of the last Annual and Special Meeting of Shareholders held on May 12, 2016 are here and available for inspection. I am also tabling a copy of the 2016 audited financial statements. These are publicly available as are the proxy materials. Additional copies are available at the back today.

Please note that on the completion of the meeting, the CEO and 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 would ask that you limit your questions and discussion to those matters directly relating 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've been advised by the scrutineers that prior to the meeting proxies were received from the holders of 11,288,593 shares or approximately 36.36 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 put to this meeting on a show of hands.

Before we proceed with the formal part of our agenda I'd like to acknowledge two individuals. First, Mr. John Perri is not standing for re-election to the Board. Mr. Perri has been an independent director of Medical Facilities since May of 2012 and has served as Chair of the Business Development and Acquisition Committee for most of his tenure. He was instrumental in identifying potential

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acquisitions due to his knowledge of the physician owned hospital space. On behalf of the Board and Management, we would like to thank Mr. Perri for his service and for sharing his strategic acquisitions and U.S. healthcare experience and knowledge with us.

Secondly, we would like to thank Mr. Michael Salter, who is with us here today. Michael retired from his position as Chief Financial Officer of Medical Facilities at the end of 2016. Michael was instrumental in the formation of Medical Facilities and the initial public offering in 2004. Michael left the company with a solid financial foundation that has generated value for our shareholders. On behalf of the Board and Management—he's here somewhere; there he is—I'd like to thank Michael for his years of dedication, effort and commitment to building and growing Medical Facilities to what it is today. Thank you, Michael.

We will now proceed with the formal part of the agenda. The first item of business, for which this meeting has been called, is the election of seven directors to hold office until the next Annual Meeting of Shareholders of the Company, or until their successors are duly elected or appointed. The Management Information Circular states that there are seven candidates proposed by Management. The Secretary will now read their names.

Tyler Murphy – Chief Financial Officer, Medical Facilities Corporation / Meeting Secretary

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The names of the nominees are David R. Bellaire, Marilynne Day-Linton, Stephen Dineley, Senator Irving R. Gerstein, Dale Lawr, Jeffrey C. Lozon, and Britt T. Reynolds.

Marilyn Day-Linton – Chair of Board of Directors, Medical Facilities Corporation

Thank you. Is there a motion concerning the election of directors?

Unidentified Speaker

I nominate (inaudible).

Marilyn Day-Linton – Chair of Board of Directors, Medical Facilities Corporation

Secunder?

Unidentified Speaker

I second the motion.

Marilyn Day-Linton – Chair of Board of Directors, Medical Facilities Corporation

Thank you. Since no further nominations have been received in the required timelines, I declare the nominations closed. Seven persons have been nominated as directors and there are seven directors to be elected. The directors of Medical Facilities Corporation have adopted what is commonly referred to as majority voting policy. Under that policy, a director is required to tender his or her resignation if he

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or she receives more withhold votes than votes cast for his or her election. Based on the proxies received for the election of director, if elected, none of the nominees would have to tender their resignation under normal Medical Facilities Corporation's 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? Thank you.

I therefore declare that each of the seven nominees whose name has been read by the Secretary has 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 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 Board of Directors to fix remuneration of the auditors.

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

Ms Chair, I hereby move that KPMG LLP be reappointed auditors of the Company at a remuneration to be fixed by the Board of Directors of the Company.

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Marilyn Day-Linton – Chair of Board of Directors, Medical Facilities Corporation

Secunder?

Unidentified Speaker

I second the motion.

Marilyn Day-Linton – Chair of Board of Directors, Medical Facilities Corporation

Thank you. 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? Thank you. Those opposed? The motion is carried.

I declare that KPMG LLP has been reappointed as the auditor of the Company in accordance with the motion.

The next item of business for which this meeting has been called is to consider, and if thought appropriate, to approve a resolution adopting the Corporation's stock option plan, reserving for issuance the common shares of the Corporation issuable thereunder, and ratifying certain options granted thereunder, as more fully described in pages 14 to 18 of the Management Information Circular accompanying notice of this meeting. In order to be approved, as required by the Toronto Stock

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Exchange, 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

Ms Chair, I hereby move the following resolution: Be it resolved that the ordinary resolution set forth on Page 18 of the Management Information Circular relating to approval of the Corporation's stock option plan, reservation of common shares issuable thereunder and the ratification of options granted thereunder be approved.

Unidentified Speaker

I second the motion.

Marilyn Day-Linton – Chair of Board of Directors, Medical Facilities Corporation

Thank you. 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? Thank you. Those opposed? The motion is carried.

I declare that the resolution approving the Corporation's stock option plan, the reservation of common shares issuable thereunder, and ratification of certain options granted thereunder, as

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described in the Management Information Circular accompanying the notice of this meeting is hereby approved.

Is there any other business to come before this meeting? If there's no further business, may I ask for a motion to terminate the meeting?

Unidentified Speaker

Ms Chair, I move that the meeting be terminated.

Unidentified Speaker

I second the motion.

Marilyn Day-Linton – Chair of Board of Directors, Medical Facilities Corporation

All those in favour, please so signify. Thank you. Contrary, if any?

I declare that this meeting is now terminated.

I would now like to ask Britt Reynolds and Tyler Murphy, our Company Chief Executive Officer and Chief Financial Officer, to make presentation and answer your questions. Thank you.

Britt Reynolds – President and Chief Executive Officer, Medical Facilities Corporation

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Thank you, Marilynne. Good evening everyone. Before I begin my formal remarks, I'd like to draw your attention to the continuing language regarding forward-looking statements which you see here, and I'm going to give you a moment to read through that.

All right. It was just about four years ago today when I first met with you guys at this meeting. A great deal of progression has been made in the last several months and years, and I'm happy to join you again today to discuss that progress and our plans as we move forward.

One of the most significant achievements from the year, the last year and acquisition of new facilities after a gap of approximately four years of acquisitions. Two new facilities were added in 2016. Unity Medical Center and Hospital, which is referred to, or we refer to as UMASH, in last September, and Prairie State Surgical Hospital and Ambulatory Surgery Center located near our Sioux Falls Specialty Hospital in October. 2017 results will reflect a full year's impact of these acquisitions.

To magnify this growth, we memorialized a strategic plan endorsed by the Board which mapped our strategies for acquisition and growth as we go forward. This plan was facilitated by adding a new management with the skills to execute against this plan. Tyler Murphy joined us as Chief Financial Officer, replacing Michael Salter, which we acknowledged earlier, who is a long-time CFO of the Corporation. Jim Rolfe joined us in a new role as Chief Development Officer, and lastly, our most recent hire, Rob Herrar (phon), among us here, joined MFC as our Chief Operating Officer.

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This group of executives has extensive experience in organic and acquisition growth initiatives, physician syndication and payer and reimbursement contracting, and this will give us a strategic advantage dedicated to a management team where we have our local representatives.

We continued our strong financial performance in 2016 with 10 percent revenue growth, and US\$339.5 million and distributions of CA\$35 million. I'm very pleased to add we continued the strong 12-year track record of delivering solid results and stable distributions with 153 consecutive dividends paid.

Turning to our next item, our MFC partners have established track records of high-quality patient satisfaction, strong financial performance that will provide the foundation needed to achieve our growth strategies going forward. As you know, we have six facilities, five specialty surgical hospitals and one freestanding ambulatory surgery centre. Prairie State's surgical centre was merged with Sioux Falls Surgical Specialty Hospital upon acquisition. Our facilities are in markets with strong local demographics, and with the exception of UMASH, we have operated in those markets for over 10 years. UMASH has been in operation approximately since 2009.

When it comes to quality, all of facilities have positive referral ratings that have significantly far exceeded the national average. Ninety-one percent of MFC's patients would recommend the facility to another patient or family member or friend, versus the national average of 72 percent. All of our hospitals are highly ranked by national surgery agendas in both the national and other local markets.

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Patients are increasingly taking a proactive approach to their healthcare choices and needs. By considering quality, cost and convenience, given MFC's high quality and consecutive track record for high patient satisfaction, our facilities have a substantial competitive advantage in their markets. The high quality of our facilities is also a key factor in physicians recruitment and retention and attracting new acquisition targets.

Each of MFC's facilities are looking at ways to grow organically, through expanding service offerings, complexity in our market acquisitions, improving capacity in our facilities, utilizing and capturing operational efficiencies. Each are looking of ways to strengthen their position in their local communities. This is done by looking at opportunities to add additional service lines and/or increase the number of physicians and locating services lines that are needed in the community to meet the patient needs.

We are actively seeking our physicians to join MFC and believe they will benefit from working with our facilities and the high-quality physicians and our partners in our markets. We are focused on expansion of our local footprint.

The new urgent care clinic opened by Black Hills Surgical Facility in Spearfish, South Dakota and their addition of an ENT clinic is a prime example of the recent successes we've had with this kind of initiative. We have similar initiatives undergoing in all of our marketplaces.

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We are also focused on end market complementary acquisitions, such as ASCs and imaging centres. An example of this initiative is in Sioux Falls Specialty Hospital's successful acquisition of Prairie State Surgical Center in the latter part of 2016. Adding these complementary businesses will expand our local market area, the services offered and access enabling continued high patient and physician satisfaction, and complementary expanding services that our patients desire.

In addition to expansion of services and in-market acquisitions, we will continue to focus on improving efficiency and margins. Given that a large portion of MFC's facilities procedures provide orthopaedic services, there are continued opportunities to realize cost improvements. For example, throughout the opportunities provided are implants and related supplies. We are proud of our existing facilities and are confident that they will provide us with a strong base that is needed to achieve our acquisitive growth strategies.

In terms of other growth by acquisition, we currently have a robust pipeline. When we consider facilities for acquisitions, we look at the following criteria that are consistent with our current portfolio. First, the facility must be high quality with competitive clinical outcomes. Next, physician alignment and application, or focus are attributes, particular control and to only acquire facilities where physicians are on our partnership.

Lastly, it is most (inaudible) for us to be accretive in our strong earnings and growth strategies, and opportunities available such as service line additions and operating enhancements.

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The U.S. healthcare M&A market is ripe with opportunity, and consolidation and divestiture trends going forward. We plan to carefully evaluate each opportunity that arises and will be selective in determining the prospectives that are the best fit and value comprised for MFC.

We are also actively evaluating opportunities to expand our existing partnerships with physicians' owned specialty surgical hospitals, however, due to the legislation and the targeted universe is very small when compared to the ambulatory surgery centre space, we are only approaching 250 physician-owned specialty hospitals for potential. This is compared to roughly 5500 ambulatory surgery centres.

ASCs have grown into a key healthcare delivery platform. Due to their low-cost setting, their growth also has been due to technical advances which are enabling them to provide increased care with complementary services. We are actively evaluating public opportunities in this space.

We are pleased with the growth we achieved in 2016 and in 2017 our investment proposition remains strong. We have high-quality facilities that combine optimal patient services and experienced hospital care, generating stable cash flows and delivering consistent distributions to shareholders. These activities have enabled us to achieve our growth initiatives. The U.S. healthcare industry, particularly the private hospital and ambulatory care markets, is experiencing rapid growth and consolidation trends. We are actively pursuing several acquisition opportunities.

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We have the skills and experience to capture the growth in the dynamic U.S. healthcare market with the restrictions that are placed on that.

Let me invite Tyler Murphy, our CFO, to come and take the podium to discuss our financial performance to date and then we will invite your questions for discussion. Thank you.

Tyler Murphy – Chief Financial Officer, Medical Facilities Corporation

Thank you, Britt, and good morning everyone. I will briefly walk through our annual and quarterly financials. Overall, we are pleased with our success in the year and confident we can continue to deliver growth and shareholder value.

In 2016, MFC had revenue of \$339.5 million, a 10 percent increase over \$308.8 million in 2015. Driving this growth is an increase in case volume along with additions from our acquisitions. We had growth in cases every year since inception, which is a testament to the quality of our facilities and their teams, many who are here today. Strong momentum in the case volume will continue to be a key feature of MFC and will help us execute on our growth strategy, both to serve as a model for physician-owned facilities to join our networks, and to help our ability to recruit physicians to our current facilities.

Income from operations decreased in 2016 by 8.9 percent to \$68.1 million, or 20.1 percent of revenue, compared to \$74.7 million or 24.2 percent of revenue in 2015. With the decrease mainly

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attributable to the rise in operating expenses. Controlling costs and improving margins is a key strategy of the new management team and I'm confident of our future successes.

In Q1 2017, we reported revenue of \$89 million, up 17.2 percent from \$75.9 million in the first quarter of 2016. In general, revenue growth was attributable to higher incremental revenues from recent acquisitions, case volumes, an increase in revenue from our ancillary services, better case mix and annual price increases. These increases were partially offset by changes in payer mix.

Consolidated income from operations was \$13.3 million, down from \$14.8 million in the first quarter of 2016. This was as a result of higher salaries and benefits, drugs and supplies, and general and administrative expenses.

We ended the year with operating margin of 23.1 percent compared to 19.5 percent of revenue in Q1 of 2016.

Dividends paid in 2016 were \$8.7 million, even with the previous year. Our payout ratio for the first quarter of 2017 was 80.9 percent, higher than the 73.2 percent in Q1 of 2016, but in line with our historical norms.

As we execute on the objectives of our strategic plan, we are well positioned to act on opportunities when they arise. Our strong balance sheet, as you can note here, we have cash and cash

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equivalents of \$50.3 million, our current ratio is 2.4 times, net debt to equity is 58.3 percent, and subsidiary debt coverage at 1.37 times.

I would now like to invite Britt back to the podium and we'll be happy to take your questions.

Q & A

Britt Reynolds – President and Chief Executive Officer, Medical Facilities Corporation

Thank you, Tyler. We are all now prepared to accept questions in case you have them. If you have a question, if you don't mind stepping to the microphone and addressing—sharing your name.

Paul Vernon

Hi. I'm Paul Vernon (phon) from Burlington. I have the obvious question. Washington's changing medical outlook, how does it directly affect the company?

Britt Reynolds – President and Chief Executive Officer, Medical Facilities Corporation

We actually covered that on our earnings call today and we'll continue to cover that. Where we find ourselves in the space that we provide is slightly different than the general acute care marketplace. The ACA and the changes that are active there and unpredictable at this point in time, largely affect the full-service acute hospitals where emergency care and critical care operations are. We don't cover those

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in our facilities. Our procedures are elective by the physicians and disproportionately are all scheduled in advance rather than just patients walking in.

We must be respectful of change but we are not concerned largely of the proposals that we understand are being considered at the time.

Paul Vernon

My understanding is that you are focused on short-stay kinds of things, aren't you?

Britt Reynolds – President and Chief Executive Officer, Medical Facilities Corporation

Yes, sir.

Paul Vernon

Thank you.

Britt Reynolds – President and Chief Executive Officer, Medical Facilities Corporation

Thank you.

Mike Lipkin

Mike Lipkin (phon) from Toronto. I have a question. We're quite impressed with the growth of 10 percent a year in sales, but if you look at the bottom line we've made no progress, in fact we've gone

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down in the last five years. It's no use increasing our sales if it doesn't come down to our bottom line. What's Management's intention to do about it? Also, maybe can you address leverage in the future?

Tyler Murphy – Chief Financial Officer, Medical Facilities Corporation

Yes. Thank you. You are correct. In the U.S. healthcare space there's been continued margin compression across the different varied inpatient/outpatient areas. A lot of this is due to drug supplies, costs, wage increases, so we are very intent with our new management team to try to help our facilities share best practices, be it in purchasing, as we do combined purchasing to make some savings there, for staffing ratios. If we have one hospital that's really doing good on staffing that we can share these practices throughout our hospitals which is not something that has always been done in the past. We will continue to also try to find other ways to bring in the higher margin business and keep our case mix changing to more commercial pays as opposed to more Medicare pay. Much of this growth in revenue has come on the Medicare side which is obviously a lower margin business.

So, we will continue to do whatever we can to aid our facilities in recruiting new physicians that will help bring in these commercial patients and bring in the higher margin business.

As far as leverage, we obviously are very low levered compared to our peers. We like being in that position. We would obviously like to find some very nice acquisitions that we would be willing to go

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up in our leverage but we're not looking to jump from now to above the industry norm. It would be just baby steps as we were finding the right acquisitions that were providing money to our bottom line.

Mike Lipkin

One more question. There's apparently a new facility being built in one of your markets. What's the impact of that facility?

Britt Reynolds – President and Chief Executive Officer, Medical Facilities Corporation

I'll take that. That facility is—the proposed development is on a two year to two and half year growth before it opens. We like our position in terms of quality in that marketplace. We enjoy a large quality ranking there. We have the only ability in the market, so the new facility would not have the ability to partner with physicians. Only those that are at the facilities that are already present there, and we think that's a key—obviously a key strategy in the inception of this company. So, we like that advantage. It's obviously up to management to continue to create the environment where physicians want to be at our locations, but the financial opportunity to participate would only be in ours.

That being said, we take nothing for granted and we are in competitive marketplaces wherever we are. We accept that as the case and we are actively and will continue to actively work over the next two years before that facility opens. It doesn't scare us and at the same time we do not take that for granted.

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Eric Brewer

I'm Eric Brewer (phon). Just referring to a couple of sentences on Page 7. My question is addressed to Tyler. If you could give us a little more detail on why the income from continuing operations dropped from \$39.7 million to—it says, "the value of its changeable liability and convertible debentures." If you could explain what that's all about and whether we could expect items like that in the future, or was this just one time?

Tyler Murphy – Chief Financial Officer, Medical Facilities Corporation

Yes. Part of the drop in income from operations was related to higher depreciation and amortization costs from the acquisitions that were done last year.

As far as the exchangeable interest goes, the value of that goes up or down quarter-over-quarter based on the share price. So it's formula. It will go up and down based on the share price going up and down, and so that is something that will be there in the future.

Marilyn Day-Linton – Chair of Board of Directors, Medical Facilities Corporation

No other questions? Thank you.

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With that, thank you Britt and Tyler, and I'd like to thank all of you for attending and we look forward to an exciting year for MFC in 2017. Thanks very much for taking your time to be here. Thank you.

Tyler Murphy – Chief Financial Officer, Medical Facilities Corporation

Thank you.