



TRANSCRIPT

2022 Annual and Special Meeting of Shareholders

Tuesday, June 21st, 2022

Operator: Hello and welcome to the Annual and Special Meeting of Shareholders of Medical Facilities Corporation. Please note that today's meeting is being recorded. If you participate in today's meeting and disclose personal information you will be deemed to consent to the recording, transfer and use of same. If you disclose personal information of another person in today's meeting, you will be deemed to represent and warrant to Computershare and Medical Facilities Corporation, that you first obtained all required consents for the disclosure, recording, transfer, and use of such personal information from all appropriate persons before your disclosure.

It is now my pleasure to turn today's meeting over to Jeffrey Lozon, Chair of the Board of Directors at Medical Facilities Corporation. The floor is yours.

Overview

Jeffrey Lozon

Chair of the Board of Directors, Medical Facilities Corporation

Good morning. It is now 11.00 AM Eastern Time and I would ask that the Annual and Special Meeting of Shareholders come to order. Ladies and gentlemen, my name is Jeffrey Lozon. As chair, I would like to welcome you to the 2022 Annual and Special Meeting of Shareholders of Medical Facilities Corporation.

Before we begin the formal portion of the meeting, let me introduce the other speakers, Mr. Robert Horrar, the company's President and Chief Executive Officer, and Mr. David Watson, the company's Chief Financial Officer.

Rules of the Meeting

As this meeting is held virtually via live webcast, please note the following rules for the orderly conduct of the meeting. Questions in respect of motion can be submitted by any registered shareholder or duly appointed proxyholder using the Q&A feature on the virtual interface. Questions will be addressed during the question period at the end of the meeting, provided that questions regarding procedural matters or directly related to the motions before the meeting may be addressed during the meeting.

For the purposes of the meeting today, voting on all matters will be conducted by electronic ballot. Registered shareholders and duly appointed proxyholders will be asked to vote on each business item after the presentation of all business items. When you are asked to vote, you may do so using the vote feature on the virtual interface. You will only have a certain amount of time to do so when the polls are open.

I will act as chair of the meeting, I will ask David Watson to act as Secretary of the meeting, and Bernadette Villarica of Computershare Investor Services, Inc. to act as scrutineer.

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 the formal matters, any shareholder or proxyholder may ask questions.

I would also like to remind you that only registered shareholders or duly appointed proxyholders that have logged into the meeting using their previously obtained control

number or username are entitled to vote or submit questions in this meeting in the designated field on the virtual interface.

The last Annual and Special Meeting of Shareholders was held on May 13th, 2021. Any shareholder who wishes to review the minutes of that meeting should contact us by using the Q&A feature on the virtual interface. I am also tabling a copy of the 2021 audited financial statements. These are publicly available, as are the proxy materials, and are posted on our website and SEDAR.

Please note that upon completion of the meeting, the CEO and the CFO will be making a presentation. Following their presentation, they will endeavor to address questions you may have that are submitted using the Q&A feature on the virtual interface. Accordingly, during the formal portion of this meeting I would ask that you'd limit your submitted questions to those 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 these are publicly available and posted on our website and SEDAR. I have been advised by the scrutineer that prior to the meeting, proxies were received from the holders of 15,752,826 shares or approximately 52% 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.

Voting Procedures

We will now proceed with a formal part of our agenda. Before we consider the business of the meeting, I would like to outline the voting procedures to be used at today's meeting. We will conduct each vote by way of a vote feature on the virtual interface and those submitted by proxy.

If you have voted your shares by proxy prior to the start of this meeting, your vote has been received by the scrutineer, and there is no need to vote these shares during the meeting unless you wish to revoke or change your vote. Polls on the individual business items will be open for voting once the motions are put forth for the business items to be considered at the meeting.

Registered shareholders who have not submitted a proxy and wish to vote their shares, or who wish to change the vote, may do so by clicking on the poll button on the screen. Duly appointed and registered proxyholders may also vote using the same method.

Resolutions to be considered at the Meeting

I will now present the three resolutions that will be considered at this meeting.

Resolution #1

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 circulars states that there are seven candidates proposed. The Secretary will now read their names.

David Watson: The names of the nominees are Lois Cormack, Stephen Dineley, Erin S. Enright, Michael Gisser, Robert O. Horrar, Jason Redman, Reza Shahim.

Jeffrey Lozon: 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. Can I please have a motion for the election of directors?

Speaker: Mr. Chair, I hereby move that each of the seven persons whose names have been read to this meeting by the Secretary for election as the director of the company be elected to serve until the annual meeting of shareholders to be held in 2023, or until his or her successor is duly elected or appointed, or he or she otherwise ceases to hold office.

Speaker: Mr. Chair, I second the motion.

Resolution #2

Jeffrey Lozon: 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 authorize the Board of Directors to fix the remuneration of the auditors.

In order to be approved, the resolution must be passed by a majority of the votes cast thereon. Can I please have a motion for the reappointment of the auditors?

Speaker: Mr. Chair, I hereby move that KPMG LLP be reappointed as auditors of the company, at a remuneration to be fixed by the Board of Directors of the company.

Speaker: Mr. Chair, I second the motion.

Resolution #3

Jeffrey Lozon: The next item of business for which this meeting has been called is to consider and, if thought appropriate, to approve a special resolution approving an amendment to the articles of the company to remove the requirement that a majority of directors be resident Canadians, as more particularly set forth in the management information circular.

In order to be approved, the resolution must be passed by not less than two-thirds of the votes cast thereon. Can I please have a motion for the amendment to the articles?

Speaker: Mr. Chair, I hereby move that the special resolution amending the articles of the company to remove the requirements that a majority of directors be resident Canadians, as more particularly set forth in the management information circular, be approved.

Speaker: Mr. Chair, I second the motion.

Q&A

Jeffrey Lozon: Thank you. Are there any questions regarding the three motions to be voted upon? I now invite Trevor Heisler of National Public Relations to read any questions submitted.

Trevor Heisler: Good morning, Mr. Chair. Please wait a moment while I gather any questions submitted through the Q&A feature.

I see no questions submitted through the Q&A feature. Please go ahead, Mr. Chair.

Voting

Jeffrey Lozon: The polls are now open to vote on the election of directors, the appointment of auditors, and the amendment to the articles. At this point, all registered shareholders and duly appointed proxyholders, who have properly logged in with their control numbers or their username and wish to vote, will be able to see on the screen all motions being brought forth at this meeting.

Please register your votes by accessing the voting page and selecting the 'for' or 'withhold' buttons next to the name of each proposed director and next to the resolution with respect to the appointment of KPMG LLP as the company's auditors. Please also register your votes for selecting the 'for' or 'against' buttons next to the special motion to amend the articles of the company.

We will provide registered shareholders and duly appointed proxyholders approximately one more minute to complete the electronic ballots. Once the electronic balloting closes, the voting pages will disappear, and your votes will automatically be submitted.

Results of Voting

Now that everyone has had the opportunity to vote, I declare the polls for each item to be voted upon to be closed. I have been advised by the scrutineer that all of the ballots and proxies deposited for the meeting have been counted and all three of the motions have passed.

In respect to the election of directors, the Board of Directors of Medical Facilities Corporation has adopted what is commonly referred to as a majority voting policy. Under this policy, a director is required to tender his or her resignation if he or she receives more 'withhold' votes than votes cast 'for' his or her election.

The scrutineer's report on the vote regarding the election of directors shows that each of the nominees would receive a greater number of votes 'for' his or her election than would be 'withheld' from his or her election, and none of the nominees would have to tender their resignation under Medical Facilities Corporation's majority voting policy.

Therefore, I 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. Congratulations.

In respect to the appointment of auditors, the scrutineer's report on the vote regarding the reappointment of the auditors shows that the resolution has passed. Therefore, I declare that KPMG LLP has been reappointed as auditors of the company, and that the Board of Directors is authorized to fix the remuneration of the auditors.

In respect of the amendment to the articles, the scrutineer's report on the vote regarding amendment to the article shows the resolution has passed. Therefore, I declare that the amendment has been duly approved by shareholders.

As we have not received any requests for further business to come before the meeting, I declare the meeting terminated. I would now like to ask Robert Horrar and David Watson, the company's CEO and CFO, to make a presentation and to answer your questions.

2021 Overview

Robert Horrar

President & CEO, Medical Facilities Corporation

Thank you, Jeff. And good morning, everyone. I appreciate you joining us today. David and I will now provide an overview of the past year and the first quarter of 2022 as well as our outlook for the balance of the year. First, I would like to direct your attention to our disclaimer on the forward-looking statements as the following presentation should be viewed in the context of this disclaimer.

Looking back at 2021, obviously the pandemic continued to impact our business, but importantly our surgical case volumes continued to recover during the year. While 2021 volumes were still not back to pre-pandemic levels, they were up 8.9% compared to 2020.

The volume improvements compared to 2020 translated to improved financial results in 2021. Our total revenue and other income increased 9.6% to \$411.7 million, income from operations increased 14.1% to \$77.4 million, and our adjusted EBITDA increased 8.3% to a \$104.1 million.

On the growth front, in late 2021, we completed a 4,500 square foot expansion project at Arkansas Surgical Hospital, adding two operating rooms and three new recovery beds in its post-anesthesia care unit. This expansion allows more patients to access specialty care in this five-star hospital that prides itself on efficient, high-quality service.

Our strong cash flow performance throughout the year translated to improved shareholder returns in 2021. In the second half of the year, we announced a 15% increase in our quarterly dividend, commencing with our fourth quarter dividend that was paid in January of 2022.

In the latter part of 2021, we implemented a normal course issuer bid and repurchased 310,000 common shares from the open market by the end of December. Our improved cash flow performance last year, combined with the dividend increase and our share buyback, led to a 32.8% share price increase in 2021.

I would now like to turn the presentation over to David, who'll provide a brief overview of 2022 for first quarter results. David...

2022 First Quarter Results

David Watson

CFO, Medical Facilities Corporation

Thank you, Rob. Good morning, everyone. Please note that all dollar amounts in this presentation are in US dollars unless stated otherwise.

This slide illustrates the percentage variance by month in our surgical case volumes for January, February, and March of 2022 compared to pre-pandemic levels for the same months in 2019.

The first quarter of this year began with the Omicron variant surging across North America, driving higher cancellation rates, and significantly impacting our operations in the month of January. As the Omicron surge began to subside, case volumes began to improve in February and more dramatically in March.

While our January 2022 surgical case volumes were down 2% from January 2021, they were down 17.4% compared to pre-pandemic levels in January 2019. Although surgical volumes began to improve in February and increased 11.9% over 2021, they were still 3.8% lower than February 2019.

March 2022 volumes increased 8% over 2021 and importantly, they exceeded March 2019 volumes by almost 12%. Overall, first-quarter 2022 surgical case volumes increased 6.1% compared to the prior year but remained 3.2% below the first quarter of 2019.

Financial Results

Last month, we released our first quarter 2022 financial results. Facility service revenue for the first quarter was \$100.8 million, up 7.2% from \$94 million in 2021. This increase results primarily from rising case volumes and the impact of Arkansas Surgical Hospital moving its anesthesia service and related billing in-house.

Facilities recognized \$1.8 million in government stimulus income in the first quarter, down 56.2% from the first quarter of 2021 as the various government programs expired. Total revenue and other income was \$102.6 million for the quarter, an increase of 4.6% compared to the first quarter of 2021.

Our share price appreciated 21.1% during the first quarter. This in turn resulted in higher share-based compensation costs, which fluctuate based on changes in the share price. These costs, combined with the impact of Arkansas Surgical Hospital bringing its anesthesia service and related billing in-house, largely drove the 38.1% increase in general administrative expenses for the quarter.

With higher operating expenses and less government stimulus income, income from operations was down 20% for the quarter and EBITDA of \$19.8 million was down 21.1% compared to Q1 of last year.

Overall, our balance sheet remains strong. At the end of the first quarter, we had cash and cash equivalents of \$50.3 million, and consolidated networking capital of \$61.4 million. Inclusive of lease liabilities as per IFRS 16, our net debt to equity stood at 0.49 times and our net debt to EBITDA on a last 12 months basis was 0.83 times. We remain well-resourced to capitalize on potential growth opportunities, and our leverage continues to be significantly lower than our US trading peers.

On that note, I will turn the presentation back over to Rob to discuss our outlook. Rob...

Outlook

Robert Horrar

President & CEO, Medical Facilities Corporation

Thank you, David. I would like to spend a moment highlighting a few reasons why we are excited about the future of MFC. In short, our business is well aligned for two of the major growth drivers for our industry, the aging population and the growth in outpatient procedures.

First, seniors' population remains the fastest-growing age group in the US. Today, there are approximately 60 million people aged 65 and older in the US and this number is expected to increase to over 73 million by the end of the decade. By 2030, every baby boomer or one out of every five Americans will be 65 and older.

There are currently more than 1 million total hip and knee replacement surgeries performed annually in the US. As the 65 and older population grows and people live longer, we expect there to be increased demand for musculoskeletal procedures. In fact, musculoskeletal diseases affect nearly 75% of age 65 and older. In other words, a growing senior citizen population equals to higher patient volumes.

Due in part to technological advancements and typically lower costs associated with outpatient surgeries, the number of these procedures performed in outpatient settings have been dramatically increasing over time. Finally, more and more orthopedic procedures continue to be approved in an outpatient setting.

With that ongoing shift to more procedures being done on an outpatient basis, it is no surprise that ambulatory care is one of the fastest-growing segments of the US healthcare industry. We believe the number of ASCs will grow significantly over the next five years. In fact, the ASC market size is projected to grow from \$37 billion to \$59 billion by 2028.

As David said earlier, we have a strong balance sheet, and are in a good position to evaluate the right growth opportunities as the pandemic subsides. ASCs remain an important part of our growth thesis. In addition to potential acquisitions, our pipeline includes de novo opportunities, similar to what we did with St. Luke's in 2020. The de novos do take time to develop and get up and running, but the return on investment is very compelling.

While we are encouraged by our recent quarter's momentum, our outlook for the balance of the year is tempered by global supply chain concerns and inflationary pressures that the whole industry is facing. We have been able to retain staff despite nationwide nursing shortage and have not had to rely on expensive contract labor. We continue to manage costs, to the extent possible, while ensuring our staff have everything they need to perform their job safely and effectively.

Before we move on to questions, I would like to express my gratitude to our entire team for their hard work and contributions. I would also like to thank all of our physician partners, nurses, facility leaders and staff as well, as all medical professionals for their dedication and their incredible efforts over these past couple of years.

Last but not least, I would like to thank you, our shareholders for your ongoing support. We'll now open the virtual floor questions and invite Trevor Heisler of National Public Relations to read any questions submitted.

Q&A

Trevor Heisler: Thank you, Rob. Please wait a moment while I gather questions submitted through the portal.

I do not see any questions submitted through the portal. I would now like to turn the mic back over to Mr. Chair for his closing remarks.

Jeffrey Lozon: Thank you, Trevor. I would like to thank all of you for attending this meeting.

Operator: This concludes the meeting. You may now disconnect. Thank you.

[END OF TRANSCRIPT]