



**MEDICAL
FACILITIES
CORPORATION**

2018 ANNUAL REPORT

Better Positioned for Growth

We are pleased to provide our 2018 Annual Report

This past year saw the significant expansion of our facilities portfolio, continued practice of sound fiscal fundamentals, and solidification of a strong platform for future growth.

A key highlight of the MFC story in 2018 was the establishment of our joint venture with NueHealth, LLC. This new venture – known as MFC Nueterra – expanded our footprint and resulted in operational efficiencies.

Our solid financial performance and continued high patient satisfaction ratings demonstrate that our expansion has not come at the expense of basic operating principles, including prudent fiscal management and exceptional customer service.

As a result of our progress in 2018, we are better positioned for growth – evolving alongside emerging market trends, while continuing to deliver industry-leading facilities and the highest quality of care for our patients.

Our blueprint for growth includes diversifying our service offering and our revenue base.

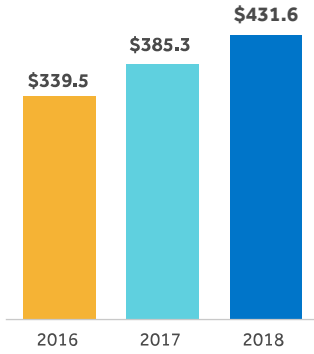
Investment Highlights

- Large, growing and fragmented market for outpatient services
- Highly-rated, high-quality facilities
- Scalable platform for growth – organically and through acquisitions
- Long-term track record of stable returns to shareholders
- Experienced, entrepreneurial management team

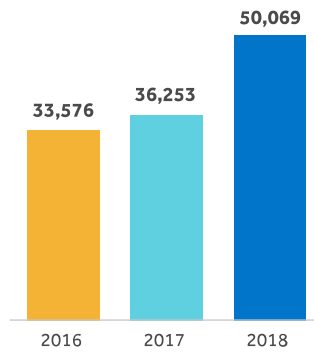
01 Financial Highlights



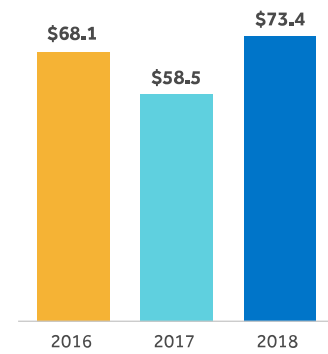
Revenue
(millions)



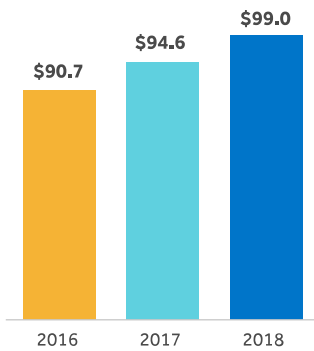
Surgical case volume



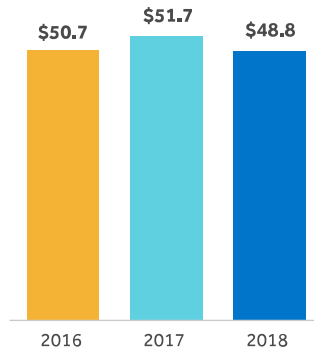
Income from operations
(millions)



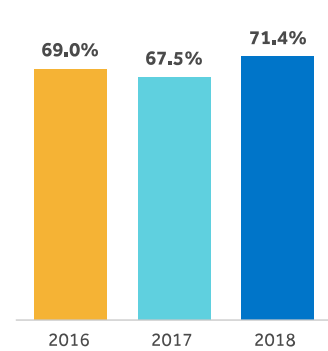
Adjusted EBITDA*
(millions)



Cash available for distribution*
(CAD millions)



Payout ratio*



**Non-IFRS Financial Measures. Refer to Medical Facilities' 2018 Management's Discussion and Analysis.*

Higher same facility surgical case volumes and the addition of the MFC Nueterra ASCs resulted in record revenue in 2018.

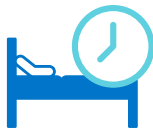
02 Growing our Footprint

As a result of MFC Nueterra's acquisition of seven ambulatory surgical centers in the first quarter of 2018, our facilities count has grown from six to 13, and MFC now has a presence in 11 states versus five prior to the acquisition.

- Prior to 2018
- Growth in 2018



Total Facilities



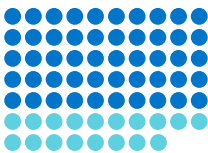
ASCs



States



Operating Rooms



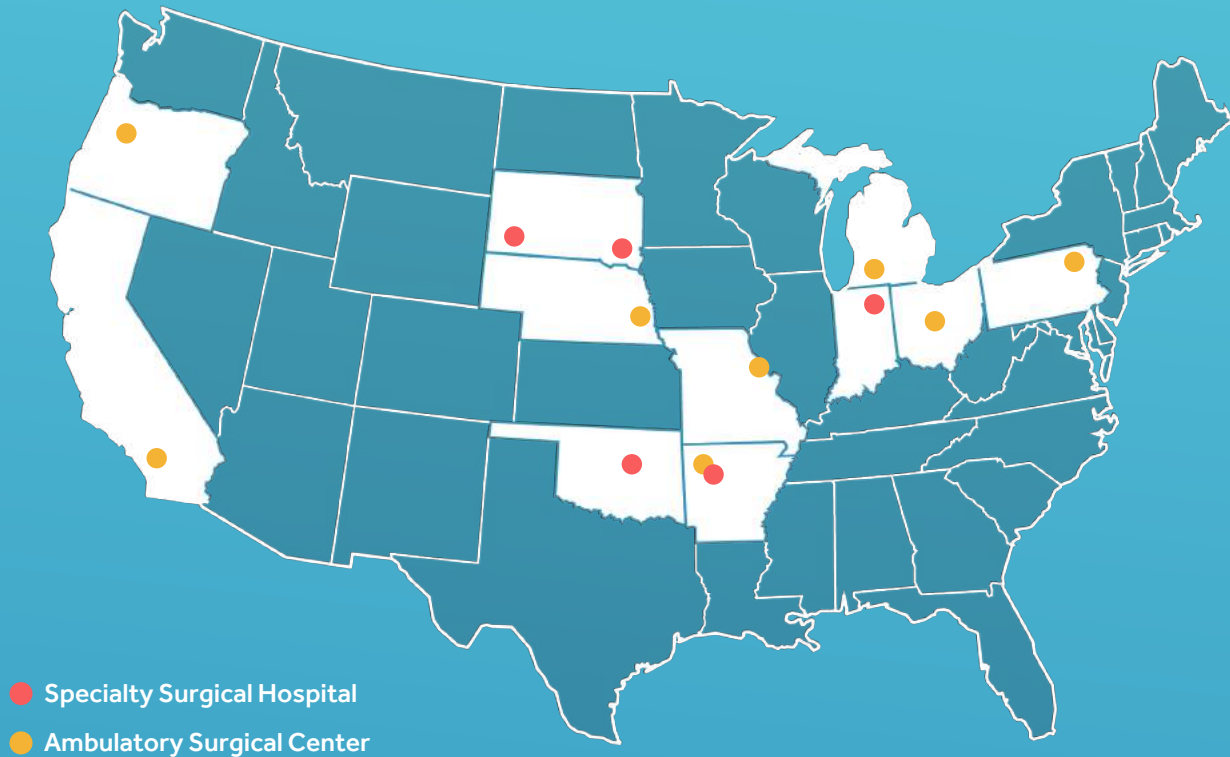
Procedure Rooms



Urgent Care Clinics



Our Expanded Reach



Arkansas Surgical Hospital
North Little Rock, Arkansas

Unity Medical and Surgical Hospital
Mishawaka, Indiana

Oklahoma Spine Hospital
Oklahoma City, Oklahoma

Black Hills Surgical Hospital
Rapid City, South Dakota

Sioux Falls Specialty Hospital
Sioux Falls, South Dakota

Central Arkansas Surgical Center
Russellville, Arkansas

Newport Center Surgical
Newport Beach, California

Brookside Surgery Center
Battle Creek, Michigan

City Place Surgery Center
Creve Coeur, Missouri

Miracle Hills Surgery Center
Omaha, Nebraska

Eastwind Surgical
Westerville, Ohio

Two Rivers Surgery Center
Eugene, Oregon

Riverview Ambulatory Surgical Center
Kingston, Pennsylvania

03 MFC Nueterra

In February 2018, we founded MFC Nueterra – our joint venture with NueHealth, LLC – and acquired seven ambulatory surgical centers (“ASCs”) specializing in outpatient surgical procedures. This \$46.5 million acquisition delivered meaningful growth for our organization – expanding our footprint, growing our revenue base, and creating value for patients.

For our overall business, this partnership has resulted in both diversification and an increase in our overall revenue base. Following the closing of the transaction in February 2018, these seven ASCs added 13,384 outpatient cases to our total case volume and \$34.1 million in total revenue.

The seven acquired ASCs benefit from NueHealth's corporate procurement program.

With NueHealth providing the day-to-day management and operational support to the acquired facilities, they also benefit from the larger corporate procurement program of NueHealth, which leverages their 50-plus facilities under management to achieve savings. Importantly, this new platform has MFC well positioned to realize further synergies from any future acquisitions.

The seven ASCs acquired through the partnership added 25 operating and procedure rooms to our portfolio and provide medical procedures that do not require overnight hospital admission, including orthopedic surgery, neurosurgery and pain management. These facilities include:



City Place Surgery Center
Creve Coeur, Missouri



Central Arkansas Surgical Center
Russellville, Arkansas



Eastwind Surgical
Westerville, Ohio



Brookside Surgery Center
Battle Creek, Michigan



Riverview Ambulatory Surgical Center
Kingston, Pennsylvania



Miracle Hills Surgery Center
Omaha, Nebraska



Two Rivers Surgery Center
Eugene, Oregon



Growth Drivers and Strategy

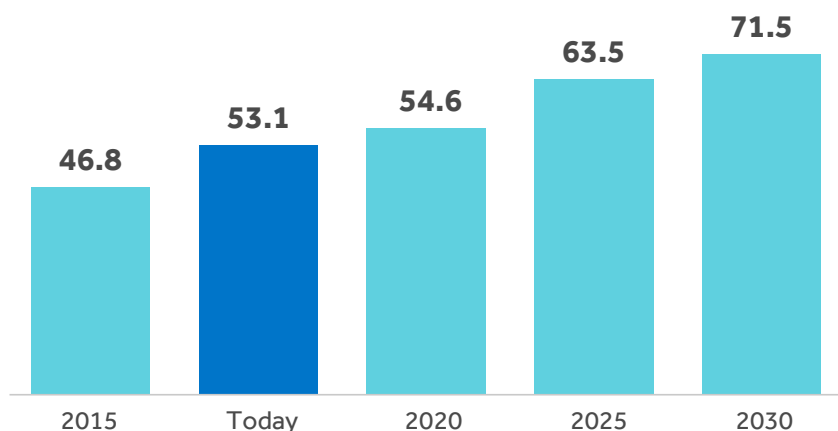
Medical Facilities Corporation is strategically positioned to capitalize on the expected growth in the United States healthcare market. In addition to leveraging our existing strengths in standard of care, highly-rated facilities, and our partnerships with NueHealth and physician investors, we are well resourced to execute our growth strategy, which includes both organic growth initiatives and accretive acquisitions.

Organically, we look to expand the capacity of our existing facilities, including recruiting new physicians and adding operating and procedure rooms. Opportunities also exist to continue to diversify our revenue base through the addition of ancillary services, as we have done by opening two new urgent care clinics in 2018.

The number of ASCs in the U.S. is expected to double in the next 10 years.

On the acquisition side, we look to increase and diversify our revenue base by buying physician-aligned ambulatory surgery centers and surgical hospitals. In addition to bolstering our pipeline of target facilities, our MFC Nueterra partnership aligns us well for the expected growth in the U.S. ambulatory surgery center market. This market is expected to benefit from a shift to more surgeries being done on an outpatient basis, aided by technological advancements; the typically lower outpatient surgery costs in ASCs compared to other settings; and an aging population.

U.S. population aged 65+ (millions)



Source: Census.gov

05 Letter to Shareholders

Dear Shareholders,

2018 was a year of transformation for Medical Facilities Corporation. We significantly expanded our geographic footprint, more than doubled our facilities count, and diversified our service offering and revenue base through a mix of well-planned organic and acquisitive growth. Importantly, with our recent growth and our disciplined management serving as a blueprint, MFC is better positioned for additional growth in 2019 and beyond.

In early 2018, we announced the acquisition of seven ambulatory surgical centers ("ASCs") from Meridian Surgical Partners ("MFC Nueterra ASCs") through our partnership with NueHealth. These ASCs are located throughout the United States, increasing our geographic diversity, reinforcing our focus on orthopedic surgery, neurosurgery and pain management, while increasing our investment in the outpatient services space. We have a controlling interest in these ASCs, and like our other facilities, we are partnered with local physicians.

In terms of organic growth, our facilities focused on adding access points and expanding their services. Following the opening of the urgent care center in Sioux Falls in 2017, two new urgent care centers were opened in 2018: Sherwood, Arkansas in January, and Gillette, Wyoming (a secondary market for Black Hills Surgical Hospital in Rapid City) in December. The strategy behind these urgent care centers is to expand our existing facilities' outreach in the surrounding communities. We are happy with the progress of our new urgent care centers to date as they continue to develop and grow.

Record revenue and surgical case volume

The acquired ASCs and the continued, successful execution of our strategy resulted in record high revenue for the year. Our revenue of \$431.6 million in 2018 represented an increase of \$46.3 million, or growth of 12% over the prior year. While the largest contributor to the growth was the additional contributions from the MFC Nueterra ASCs, our same facility revenue and surgical case volumes were also up year-over-year.

Always a key to our success is the high quality of our facilities, which combine the best patient experience and care. Our continued high patient satisfaction ratings demonstrate that our expansion has not come at the expense of basic operating principles, including prudent fiscal management and exceptional customer service.



Robert O. Horrar
President and Chief
Executive Officer

“Our revenue of \$431.6 million in 2018 represented an increase of \$46.3 million, or growth of 12% over the prior year.”

Better positioned for 2019 and beyond

While we have a lot to be proud of, we know there is more to be done. Our management team has the experience, drive and discipline to lead us through what we anticipate being an exciting chapter for MFC.

In the United States, the number of people age 65 and over is expected to increase from 53 million today to 71 million by 2030. As this segment of the population grows and people live longer, we expect there to be a higher need for orthopedic procedures. We are well positioned to capitalize on the projected growth in the 65 and over demographic and expected growth in ASCs, with the latter expected to double over the next ten years.

We have a strong base from which to grow. We will continue to focus on enhancing and adding services at our existing facilities, including the recruitment of new physicians and the addition of ancillary services, such as urgent care clinics, to further diversify our service offering. We will also look to increase our national presence and further diversify our revenue base through strategic acquisitions of physician-aligned ASCs and surgical hospitals, and while our pipeline of acquisition opportunities remains strong, the ASC acquisition market in particular is characterized by a highly competitive buyer landscape, as ASC management companies are under pressure to grow through acquisitions in order to meet their investor expectations.

As we continue to build scale, we will focus additional time and attention toward helping facility partners improve efficiencies with value add services like group purchasing and the sharing of best practices. The MFC Nueterra ASCs are included in NueHealth's corporate procurement program, which leverages their 50-plus facilities under management to achieve cost savings. We expect to achieve further synergies from any future ASCs we may acquire or develop with this new platform.

“In the United States, the number of people age 65 and over is expected to increase from 53 million today to 71 million by 2030.”

In closing, I would like to thank our Board of Directors for their ongoing counsel and guidance, our management team for their contributions, along with our physicians, nurses, other medical professionals, and all of our employees for helping us deliver the utmost quality of care to our patients. Our high-quality surgical facilities and industry-leading standard of care remain a competitive advantage. Last but not least, I would like to thank you, our shareholders, for your continued support. I look forward to keeping you apprised of our progress throughout 2019.

Sincerely,

Robert O. Horrar
President and Chief Executive Officer