



2020 ANNUAL REPORT

STRATEGICALLY POSITIONED



**MEDICAL
FACILITIES**
CORPORATION

With our strong partnerships and our diversified portfolio of high-quality surgical facilities, Medical Facilities Corporation is strategically positioned to capitalize on strong market fundamentals and growth opportunities.

With the COVID-19 pandemic and the many challenges it presented to our healthcare system, 2020 was a year unlike any other. Fortunately, we strengthened our financial position in the months leading up to the pandemic and throughout the year. We reduced or divested our positions in non-strategic and underperforming assets, and our surgical hospitals and ambulatory surgery centers adapted to the changing situations. Through it all, physician partners and associates ensured that our facilities continued to provide a safe environment and delivered excellent care to patients.



Investment Highlights

- Large, growing and fragmented market for outpatient services
- Diverse portfolio of highly rated, high-quality facilities
- Scalable platform for growth – organically and through acquisitions
- Experienced, entrepreneurial management team
- Competitive dividend

Our footprint at the end of 2020



4

Surgical Hospitals

6

Ambulatory Surgery Centers

9

States



60

Operating Rooms

11

Procedure Rooms

182

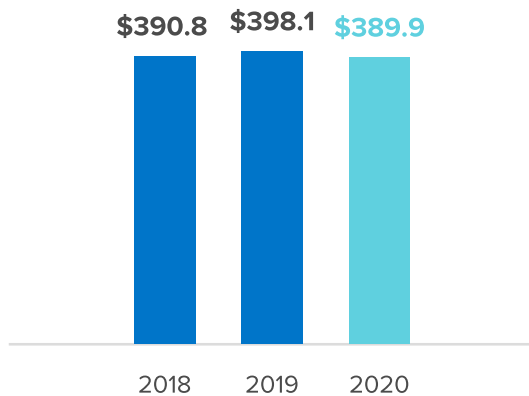
Physician Partners



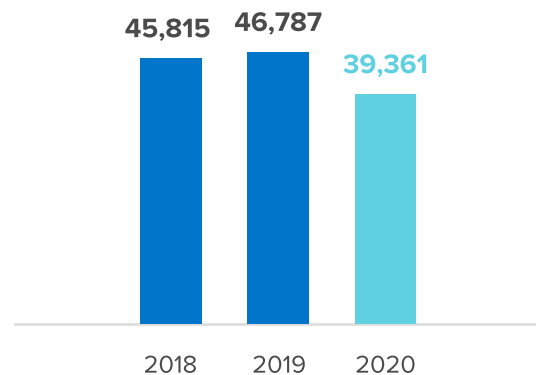
2020 FINANCIAL HIGHLIGHTS

Financial Results from Continuing Operations¹

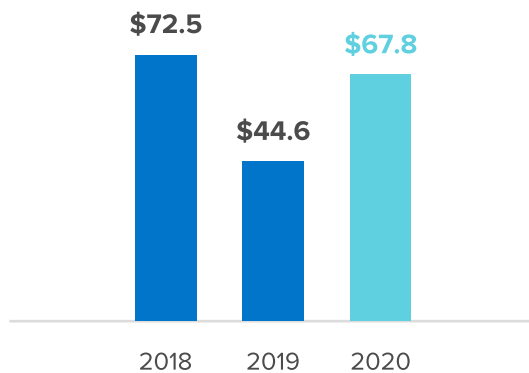
Total Revenue and Other Income
(\$ millions)



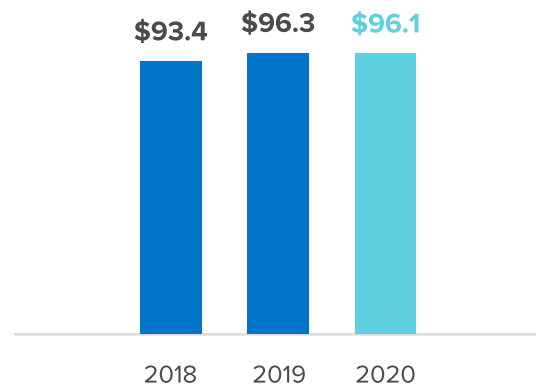
Surgical Case Volume



Income from Operations
(\$ millions)



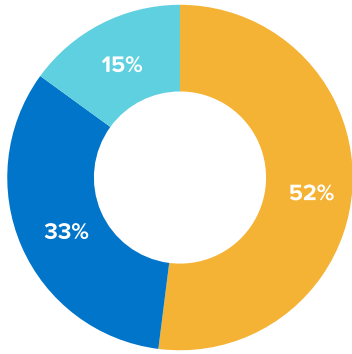
Adjusted EBITDA²
(\$ millions)



1. Continuing operations is defined as consolidated operations excluding Unity Medical and Surgical Hospital and RRI Mishawaka Hospital, LP which were treated as discontinued operations in the financial results for the three-month and twelve-month periods ended December 31, 2020 and December 31, 2019. All amounts are expressed in U.S. dollars unless indicated otherwise.

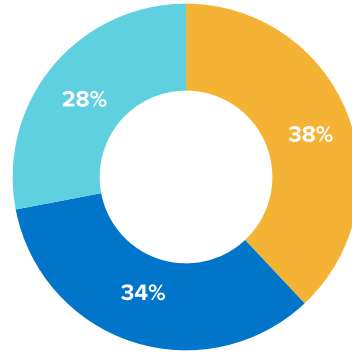
2. Adjusted EBITDA is a Non-IFRS Financial Measure. Refer to 2020 Management's Discussion and Analysis.

2020 Payor Mix



● Private Insurance ● Medicare/Medicaid ● Other

2019 U.S. Healthcare System Revenue*



● Private Insurance ● Medicare/Medicaid ● Other

*Source: Centers for Medicare & Medicaid Services, NHE Fact Sheet.



\$457M
Total Assets

0.55
Net Debt* / Equity



1.44x
Current Ratio

1.00
Net Debt* / Adjusted EBITDA



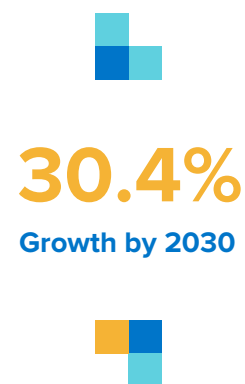
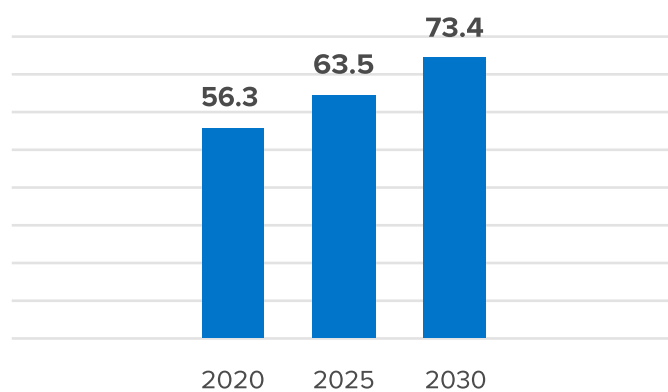
*Net Debt includes lease liabilities for the purposes of both of these calculations.

STRONG FUNDAMENTALS

Overall growth drivers

Demand for surgical procedures in the United States is expected to continue to grow, driven by overall population growth and an aging population.

U.S. population aged 65+ (million)



Source: Census.gov and United Nations, Department of Economic and Social Affairs, Population Division.

Growth expected in musculoskeletal procedures //

As the 65 and older population grows and people live longer, we expect there to be increased demand for musculoskeletal procedures. Musculoskeletal diseases affect nearly three out of four people age 65 and over. The number of musculoskeletal procedures performed in outpatient settings has been dramatically increasing over time.


Large, fast-growing ambulatory surgery market

The ambulatory surgery market is one of the fastest-growing segments in the U.S. healthcare system. Ambulatory surgery centers (ASCs), which specialize in outpatient surgical procedures, are positioned to benefit from the ongoing shift of many procedure types from the inpatient to outpatient setting.

In 2020, ASCs represented a \$30 billion market and accounted for more than half of all U.S. outpatient surgical procedures. There are over 8,200 ASCs in the United States. With increased procedure volumes also expected in the years ahead, we believe the number of ASCs will grow significantly over the next five years, while the ASC market is projected to grow to more than \$52 billion by 2025.

This shift is driven by technology advancements enabling shorter procedure and recovery times, and lower costs compared to hospital settings. In addition, patients increasingly preferring the faster access, shorter stays, and lower costs afforded by ASCs.

Source: Research and Markets, and IBIS World.



\$52 Billion +
ASC market by 2025





WELL-POSITIONED

In partnership with physicians, MFC owns a diverse portfolio of highly rated, high-quality surgical facilities in the United States.

Strong partnerships //

Medical Facilities, in partnership with physicians, owns a diverse portfolio of highly rated, high-quality surgical facilities in the United States. Our business model encourages physician owners to remain an integral part of the operations and non-owner physicians to practice at the facilities. MFC's surgeons and specialists have a direct say in the way each facility is run, resulting in superior processes and efficiencies.

Diversified portfolio //

MFC has a controlling interest in four specialty surgical hospitals located in Arkansas, Oklahoma, and South Dakota, and an ASC in California. Through a partnership with NueHealth LLC, we have a controlling interest in five ASCs located in Michigan, Missouri, Nebraska, Ohio, and Pennsylvania. MFC also owns non-controlling interests in a specialty surgical hospital in Indiana and an ASC in Missouri.

Portfolio comprised of high-quality surgical facilities in 9 U.S. states

Musculoskeletal and neurosurgical procedures represent a large portion of our overall case volumes. The case mix at each facility varies based on the clinical specialties of the physicians on staff and the equipment and infrastructure at each facility. The specialty surgical hospitals perform scheduled surgical, imaging, diagnostic and other procedures, including primary and urgent care, and derive their revenue from the fees charged for the use of their facilities. The ASCs specialize in outpatient surgical procedures, with patient stays of less than 24 hours.

Higher patient satisfaction ratings resulting from higher quality of care //

Our facilities provide a personalized approach to patient care, including attention and amenities to enhance the quality of their stay. To deliver the utmost quality of care to our patients, we rely on all of our employees and medical professionals – from our top tier physicians and nurses, to the diligent staff keeping our facilities operating efficiently. Even in a very challenging year like 2020, our surgical hospitals continued to rank among the best hospitals in the nation for high quality of care.

Three of our surgical hospitals were rated 5-star by U.S. News Health. Our other surgical hospital was rated 4-star, still ranking among other top facilities across the country when it comes to customer satisfaction.

Focused on growth //

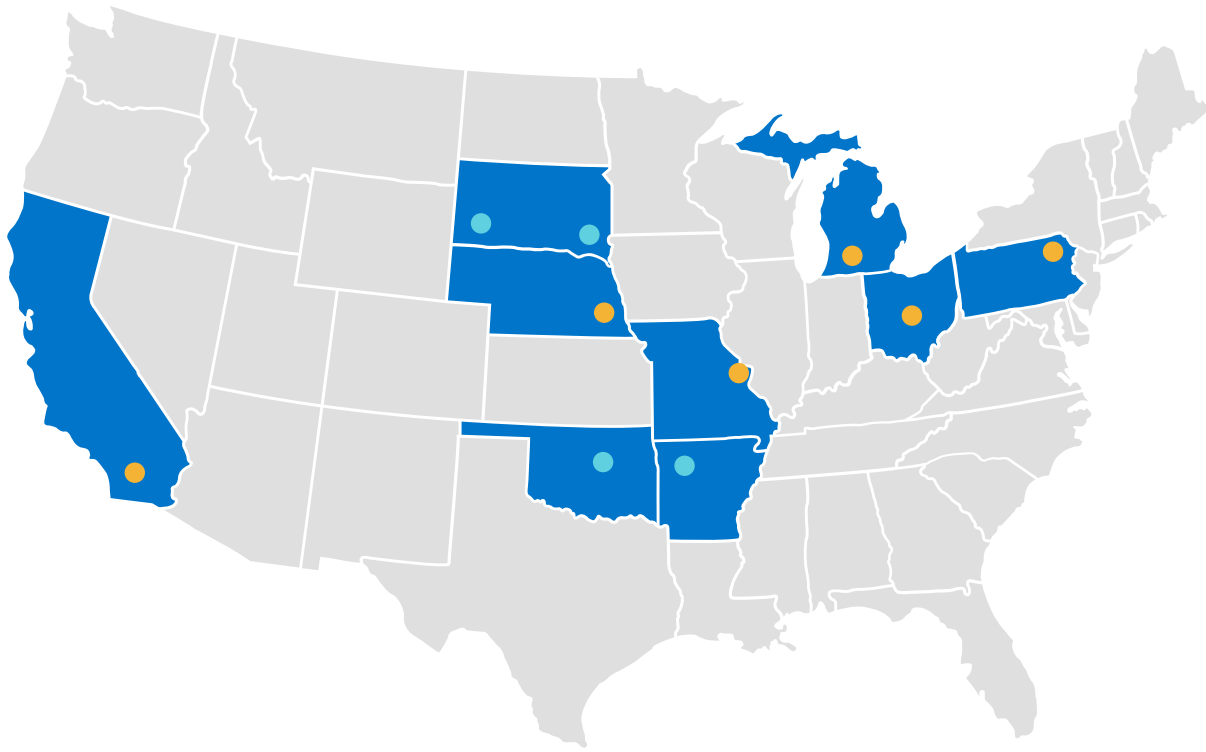
With a strong balance sheet and an ongoing commitment to operational improvements, MFC has a strong base from which to grow, both organically, and by way of strategic acquisitions. In terms of organic growth, we are focused on expanding the capacity of our existing facilities (including the recruitment of new physicians and enhancing facilities and equipment through capital investment) and diversifying our revenue base by adding more specialties and ancillary services.

Looking to capitalize on the strong ASC market outlook, we continue to pursue opportunities to execute our ASC platform growth strategy. In addition to potential acquisitions, our pipeline includes de novo opportunities, similar to the ASC we partnered to develop and open in Chesterfield, Missouri in September of 2020.



St. Luke's Surgery Center of Chesterfield //

St. Luke's Surgery Center of Chesterfield in Missouri opened in September 2020. This de novo ASC offers six specialties, including orthopedics, gynecology, gastrointestinal, plastic surgery, urology and general surgery.



● Specialty Surgical Hospitals

● Ambulatory Surgery Centers

Arkansas Surgical Hospital

North Little Rock, Arkansas

Oklahoma Spine Hospital

Oklahoma City, Oklahoma

Black Hills Surgical Hospital

Rapid City, South Dakota

Sioux Falls Specialty Hospital

Sioux Falls, South Dakota

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

Riverview Ambulatory Surgical Center

Kingston, Pennsylvania

LETTER TO SHAREHOLDERS

Dear Shareholders,

2020 was certainly a challenging year and unfolded differently than expected. MFC had a strong start to the year with net revenues for January and February being ahead of the same two months of 2019. However, in the latter part of March, conditions changed quickly as COVID-19 spread across the United States, resulting in stay-at-home orders and a temporary cessation of elective cases. The pandemic had a material impact on our business in the month of April, with inpatient and outpatient case volumes reduced to 36% and 25%, respectively, of what they were in April of 2019. By mid-May, restrictions were lifted on elective surgeries in all of our markets and case volumes began to improve.



Robert O. Horry
President and Chief
Executive Officer



Jeffrey C. Lozon
Chair of the Board
of Directors

Strong Recovery

We saw a strong rebound in case volumes in the third quarter of 2020, with inpatient and outpatient case volumes returning to 95% and 96%, respectively, of what they were in the same quarter the year before. In addition, our volumes continued to normalize throughout the fourth quarter despite the much higher prevalence of COVID-19 across the United States at the time.

We ended the year with Adjusted EBITDA of \$96 million, in line with 2019, a sustainable dividend payout ratio of 22%, and a strong and low-leveraged balance sheet. There were a multitude of factors that allowed MFC and its facilities to weather this unprecedented pandemic and end the year with a strong financial position. Among these were the changes we made to our dividend and the retirement of our debentures at the end of 2019, as well as selling our real estate position in Unity Medical and Surgical Hospital in 2020.

Also of critical importance was the support provided by the U.S. government. Each of our facilities qualified for and received government loans and stimulus funding designed to help offset the impact of COVID-19, including lost revenue and the additional expenses required to maintain and support staffing levels and keep our facilities open.

We are extremely proud of how our facilities responded to the pandemic. The leadership teams, physicians, nurses, and all of the hardworking personnel at each of our facilities found ways to adapt and continue to provide a safe environment and deliver excellent care to patients. We are grateful for their hard work and dedication, and for ensuring that our facilities continue to rank among the best in the nation for high quality of care. Our people, our high-quality facilities and our exemplary standard of care are strong foundations from which to grow.

Focused on Growth

One of the fastest growing segments in U.S. healthcare is ambulatory care, including hospital outpatient departments and ambulatory surgery centers (ASCs). There has been an ongoing shift towards ambulatory care settings for a growing number of specialties and procedures.

The ASC market is an especially attractive one for MFC. Already accounting for more than half of all U.S. outpatient surgical procedures today, we expect the number of ASCs will grow significantly over the next five years. We continue to pursue opportunities to execute our ASC platform growth strategy. The ASC space remains highly fragmented and we believe the pandemic has resulted in additional opportunities. In addition to potential acquisitions, our active and robust pipeline includes de novo opportunities. We see de novo partnership opportunities as a particularly attractive way to offer improved access for patients and physicians without significant capital investment. An example of this is the ASC we opened in Chesterfield, Missouri in September of 2020.

St. Luke's Surgery Center of Chesterfield in St. Louis County, Missouri (St. Luke's ASC), which is jointly owned by MFC Nueterra Holding Company (a subsidiary of MFC), St. Luke's Hospital and local physicians, currently offers six specialties, including orthopedics, gynecology, gastrointestinal, plastic surgery, urology and general surgery. This ASC encompasses more than 17,500 square feet of medical space with four state-of-the-art equipped operating rooms and two procedure rooms. It also features five extended care rooms to accommodate outpatient surgeries such as total joint replacement of the knee and hip. We are happy with the early performance of the St. Luke's ASC and we expect cases to continue to ramp up throughout 2021.

In addition to growing our ASC footprint, we remain equally focused on strengthening our existing business. We look to continue to grow organically by enhancing services at our existing facilities, including recruiting new physicians and diversifying our revenue base by adding more specialties and ancillary services.

While the pandemic continues to cloud our outlook over the near term, we expect our facilities' operations to continue to normalize as the vaccination rollout progresses across the country.

Strong Governance

Near the end of 2020, we announced the ordinary-course retirement of Marilynne Day-Linton from our Board of Directors. An independent member of our Board since 2013, Marilynne served as Chair of the Board from 2016 to 2019. She was also a member of the Audit Committee since 2013, which she chaired until 2016, the Corporate Governance, Nominating and Compensation (CGNC) Committee since 2013 and the Investment Committee since 2017. We have benefited greatly from her guidance over the years, in addition to her deep financial expertise and strong governance acumen. We thank Marilynne for her contributions and service and we all wish her the very best in the future.

Joining our Board as an independent director in December was Lois Cormack. Lois brings close to 30 years of relevant sector experience, spanning strategic planning, operations management, and governance. She is an accomplished leader with extensive experience in healthcare and seniors living, real estate, and capital markets. We are pleased to welcome Lois to our Board and look forward to her active involvement in the Board's Audit, CGNC and Investment Committees.

Marilynne's retirement and Lois' appointment were part of the Board renewal process commenced in 2012. We believe that having an ongoing renewal process, and maintaining the Board's independence and diversity, are cornerstones of good corporate governance.

In closing, we would like to thank our Board for their guidance and support and our management team for their contributions throughout a demanding year. We also would like to thank our shareholders for your confidence and trust. We are proud of where MFC is today and where we are heading. We remain confident that we are continuing to position and strengthen the business to build long-term value for all of our stakeholders.

Sincerely,

Robert O. Horrar
President and Chief Executive Officer

Jeffrey C. Lozon
Chair of the Board of Directors