

FORM 51-102F3

MATERIAL CHANGE REPORT

Item 1 Name and Address of Company

Medical Facilities Corporation (the “Corporation”)
45 St. Clair Avenue West, Suite 200
Toronto, Ontario
M4V 1K6

Item 2 Date of Material Change

November 7, 2019

Item 3 News Release

A news release was issued by the Corporation on November 7, 2019 in Toronto, Ontario and disseminated across Canada by Canada Newswire and subsequently filed on SEDAR.

Item 4 Summary of Material Change

On November 7, 2019, the Corporation announced that its dividend payment schedule has been changed from monthly to quarterly, with an annual rate of C\$0.28 per common share, versus the previous annual rate of C\$1.125 per common share. This change does not affect the monthly dividend previously declared on October 22, 2019 and payable on November 15, 2019. The first dividend payment under the new payout schedule will be a prorated amount for the partial period from November 1, 2019 to December 31, 2019 and will be paid on January 15, 2020. The first full quarterly dividend will be paid on April 15, 2020, subject to approval by the Board of Directors.

Item 5 Full Description of Material Change

For a full description of the material change, see the news release attached as Schedule A.

Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7 Omitted Information

Not applicable.

Item 8 Executive Officer

For further information, please contact:

David N.T. Watson
Chief Financial Officer
Tel: 416.848.7380

Item 9 Date of Report

November 7, 2019

SCHEDULE A



NEWS RELEASE

Medical Facilities Corporation Announces Third Quarter 2019 Financial Results and Changes to Dividend Payout

TORONTO, Ontario, November 7, 2019 – Medical Facilities Corporation (“Medical Facilities,” “MFC,” or the “Corporation”) (TSX: DR), reported its financial results today for the three-month and nine-month periods ended September 30, 2019. All amounts are expressed in U.S. dollars unless indicated otherwise.

Q3 2019 Summary

(Compared to Q3 2018)

- Surgical case volume increased 1.1%
- Revenue decreased 2.0% to \$102.1 million
- Recorded a non-cash impairment charge of \$22.0 million related to the MFC Nueterra ASCs, primarily due to underperformance at one of the facilities
- Adjusted EBITDA¹ decreased 5.4% to \$21.4 million
- The dividend payment schedule has been changed from monthly to quarterly, at an annual rate of C\$0.28 per common share, versus the previous annual rate of C\$1.125 per common share.
- Cash available for distributions¹ was C\$5.3 million, resulting in a payout ratio¹ of 165.3%

“The challenges we have been facing this year at Unity Medical and Surgical Hospital, or UMASH, continued to affect our results in the third quarter,” said Robert O. Horrar, President and CEO of Medical Facilities. “We continue to evaluate all strategic alternatives for UMASH in order to mitigate the ongoing impact on the company’s results.”

“Surgical case volumes were up slightly across the hospitals. However, this was offset by unfavourable payor and case mix changes, with the impact being most pronounced at UMASH.”

“We are disappointed in the results over the past few quarters, which has resulted in a payout ratio in excess of 100%. Although the fourth quarter is typically our strongest quarter, the Board of Directors, after deliberate and thoughtful consideration, has concluded that a reduction in the distribution is prudent and in the best long term interest of Medical Facilities. The Corporation believes that the new dividend rate is sustainable given its operations and cash available for distributions. On a pro-forma basis, calculated using the new dividend rate, the 2019 year-to-date payout ratio would have been 42.5%.”

Financial Results

Medical Facilities’ financial results include the impact of IFRS 16, a substantial change to lease accounting standards, effective January 1, 2019. Medical Facilities adopted IFRS 16 using the modified retrospective approach and the Corporation’s comparative information was not restated. As a result, the comparability of MFC’s 2019 EBITDA to periods prior to January 1, 2019 is impacted.

The Corporation recorded a \$22.0 million non-cash goodwill impairment charge in the quarter related to the MFC Nueterra ASCs. The impairment charge was largely due to challenges at one of the larger ambulatory surgery centers in the group.

Financial Results	For the three months ended September 30			For the nine months ended September 30		
	2019	% change	2018	2019	% change	2018
<i>(thousands of U.S. dollars, except per share amounts and where otherwise noted)</i>						
Facility service revenue	102,106	(2.0%)	104,207	302,189	(2.0%)	308,319
Consolidated operating expenses	111,289	26.9%	87,688	320,606	23.4%	259,816
Income (loss) from operations	(9,183)	(155.6%)	16,519	(18,417)	(138.0%)	48,503
Finance costs (net interest expense)	4,256	13.1%	3,763	13,667	21.4%	11,260
Finance costs (changes in values of derivative instruments and gain/loss on foreign currency)	(20,746)	(918.7%)	2,534	(28,123)	2,558.1%	(1,058)
Income tax expense (recovery)	1,108	(50.0%)	2,215	(1,377)	(120.5%)	6,715
Net income (loss)	6,199	(22.6%)	8,007	(2,584)	(108.2%)	31,586
Attributable to:						
Owners of the Corporation	2,869	78.9%	2,135	(10,225)	(180.7%)	12,663
Non-controlling interest	3,330	(43.3%)	5,872	7,641	(59.6%)	18,923

Financial Results	For the three months ended September 30			For the nine months ended September 30		
	2019	% change	2018	2019	% change	2018
<i>(U.S. dollars)</i>						
Earnings (loss) per share						
Basic	0.09	28.6%	0.07	(0.33)	(180.5%)	0.41
Diluted	(0.28)	(500.0%)	0.07	(0.74)	(289.7%)	0.39

Net income attributable to owners of the Corporation fluctuates significantly between the periods, primarily due to variations in non-cash finance costs (changes in the values of convertible debentures and exchangeable interest liability), and income taxes; these charges are incurred at the corporate level rather than at the Facility level.

Reconciliation of Net Income to EBITDA	For the three months ended September 30			For the nine months ended September 30		
	2019	% change	2018	2019	% change	2018
<i>(thousands of U.S. dollars, except where otherwise noted)</i>						
Net income (loss)	6,199	(22.6%)	8,007	(2,584)	(108.2%)	31,586
Income tax expense (recovery)	1,108	(50.0%)	2,215	(1,377)	(120.5%)	6,715
Finance costs	(16,490)	(361.9%)	6,297	(14,456)	(241.7%)	10,202
Depreciation and amortization	8,615	40.6%	6,129	26,776	47.7%	18,123
EBITDA	(568)	(102.5%)	22,648	8,359	(87.5%)	66,626
Goodwill and other intangibles impairment	22,000	100.0%	-	51,500	100.0%	-
Adjusted EBITDA	21,432	(5.4%)	22,648	59,859	(10.2%)	66,626

Distributable Cash Flow	For the three months ended September 30			For the nine months ended September 30		
	2019	% change	2018	2019	% change	2018
<i>(thousands of U.S. dollars, except per share amounts and where otherwise noted)</i>						
Cash available for distribution (C\$)	5,291	(43.9%)	9,433	15,421	(49.3%)	30,394
Distributions (C\$)	8,749	0.4%	8,714	26,222	0.4%	26,130
Distributions per common share (C\$)	0.281	-	0.281	0.844	0.5%	0.840
Payout ratio	165.3%	78.9%	92.4%	170.2%	97.9%	86.0%

During the quarter, the Corporation paid monthly cash dividends of C\$0.09375 per common share (or C\$1.125 per share on an annualized basis).

As at September 30, 2019, the Corporation had consolidated net working capital of \$16.2 million compared to \$33.2 million as at December 31, 2018. The change was due mainly to the inclusion of the current lease liability of \$12.7 million, and a decrease in accounts receivable, partially offset by a decrease in accounts payable and accrued liabilities from timing differences.

Medical Facilities' complete third quarter 2019 financial statements and management's discussion and analysis will be issued and filed on SEDAR at www.sedar.com on Thursday, November 7, 2019 and will be available on the same day on Medical Facilities' website at www.medicalfacilitiescorp.ca.

Changes to Dividend Payout

Effective today, the dividend payment schedule will be changed from monthly to quarterly, at an annual rate of C\$0.28 per common share, versus the previous annual rate of C\$1.125 per common share. This change does not affect the monthly dividend previously declared on October 22, 2019 and payable on November 15, 2019. The first dividend payment under the new payout schedule will be a prorated amount for the partial period from November 1, 2019 to December 31, 2019 and will be paid on January 15, 2020. The first full quarterly dividend will be paid April 15, 2020, subject to approval by the Board of Directors. The first two dividend payments (including the partial payment and the first full quarterly dividend) under the new payout schedule will be payable to shareholders of record per the following dates:

Payment date	Record date	Ex-dividend date	Amount per share
January 15, 2020	December 31, 2019	December 30, 2019	C\$0.04667
April 15, 2020	March 31, 2020	March 30, 2020	C\$0.07

Convertible Debentures

The Corporation's convertible debentures mature on December 31, 2019. The Corporation plans to use a combination of proceeds drawn from its \$150.0 million line of credit and internal cash balances to pay in full all outstanding amounts owed on these debentures at maturity.

Resignation of Director

David Bellaire resigned from the Board of Directors of the Corporation, effective September 29, 2019. The Corporation thanks Mr. Bellaire for his service.

Normal Course Issuer Bid

During the nine months ended September 30, 2019, the Corporation did not purchase any of its common shares. As at September 30, 2019, the Corporation had 31,106,259 common shares outstanding.

Notice of Conference Call

Management of MFC will host a conference call today, November 7, 2019 at 8:30 am ET to discuss its third quarter financial results. You can join the call by dialing 647-427-7450 or 1-888-231-8191. A replay of the call will be available until Thursday, November 14, 2019 by calling 416-849-0833 or 1-855-859-2056, reference number 8154088.

A live audio webcast of the call will be available at <http://bit.ly/MFC2019Q3>. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. The webcast will be archived on Medical Facilities' website following the call date.

About Medical Facilities

Medical Facilities, in partnership with physicians, owns surgical facilities in the United States. Medical Facilities' portfolio includes controlling interest in five specialty surgical hospitals located in Arkansas, Indiana, Oklahoma, and South Dakota, and an ambulatory surgery center located in California. In addition, through a partnership with NueHealth LLC, Medical Facilities owns controlling interest in seven ambulatory surgery centers located in Arkansas, Michigan, Missouri, Nebraska, Ohio, Oregon, and Pennsylvania. 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 ambulatory surgery centers specialize in outpatient surgical procedures, with patient stays of less than 24 hours. For more information, please visit www.medicalfacilitiescorp.ca.

Caution concerning forward-looking statements

Statements made in this news release, other than those concerning historical financial information, may be forward-looking and therefore subject to various risks and uncertainties. Some forward-looking statements may be identified by words like "may", "will", "anticipate", "estimate", "expect", "intend", or "continue" or the negative thereof or similar variations. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. Factors that could cause results to vary include those identified in Medical Facilities' filings with Canadian securities regulatory authorities such as legislative or regulatory developments, intensifying competition, technological change and general economic conditions. All forward-looking statements presented herein should be considered in conjunction with such filings. Medical Facilities does not undertake to update any forward-looking statements; such statements speak only as of the date made.

For further information, please contact:

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¹ EBITDA, adjusted EBITDA, cash available for distribution and payout ratio are non-IFRS financial measures. While Medical Facilities believes that these measures are useful for the evaluation and assessment of its performance, they do not have any standard meaning prescribed by IFRS, are unlikely to be comparable to similar measures presented by other issuers, and should not be considered as alternatives to comparable measures determined in accordance with IFRS. For further information on these non-IFRS financial measures, including a reconciliation of each of these non-IFRS financial measures to the most directly comparable measure calculated in accordance with IFRS, please refer to Medical Facilities' most recently filed management's discussion and analysis, available on SEDAR at www.sedar.com.