# Unaudited Condensed Interim Consolidated Financial Statements
## For the three and nine month periods ended September 30, 2015 and 2014

(in thousands of Canadian dollars)

Dated: November 16, 2015

## Index



**Notes to the Consolidated Financial Statements:**

**Centric Health Corporation**
**Consolidated Statements of Financial Position**
(in thousands of Canadian dollars)

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | **2,178** | 237 |
| Restricted cash (note 2) | **909** | 36,302 |
| Trade and other receivables | **38,104** | 35,043 |
| Loans receivable | **—** | 11,484 |
| Inventories | **5,836** | 5,175 |
| Prepaid expenses | **2,038** | 1,645 |
| | **49,065** | 89,886 |
| **Non-current assets** | | |
| Property and equipment (note 4) | **21,610** | 19,021 |
| Goodwill and intangible assets (note 4) | **221,973** | 196,501 |
| Deferred income tax assets (note 13) | **11,184** | 7,828 |
| **Total assets** | **303,832** | 313,236 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade payables and other amounts (note 5) | **44,067** | 41,986 |
| Current portion of borrowings (note 6) | **34,927** | 15,000 |
| Current portion of finance lease liabilities | **319** | 115 |
| Current portion of contingent consideration (note 3) | **5,973** | 2,089 |
| Derivative financial instruments | **—** | 40 |
| | **85,286** | 59,230 |
| **Non-current liabilities** | | |
| Borrowings (note 6) | **221,780** | 240,158 |
| Preferred partnership units (note 7) | **37,098** | 36,102 |
| Finance lease liabilities | **403** | 137 |
| Contingent consideration (note 3) | **8,162** | 2,056 |
| Deferred income tax liabilities (note 13) | **2,839** | 4,150 |
| Deferred lease incentives | **3,176** | 3,071 |
| Derivative liability portion of convertible borrowings (note 6) | **629** | 2,346 |
| **Total liabilities** | **359,373** | 347,250 |
| **Equity** | | |
| Share capital (note 9) | **107,665** | 104,821 |
| Warrants | **3,764** | 3,694 |
| Contributed surplus | **16,644** | 16,440 |
| Equity portion of convertible borrowings | **7,119** | 7,119 |
| Accumulated other comprehensive income | **—** | 8 |
| Deficit | **(191,578)** | (167,269) |
| Equity attributable to shareholders of Centric Health Corporation | **(56,386)** | (35,187) |
| Non-controlling interests | **845** | 1,173 |
| **Total equity** | **(55,541)** | (34,014) |
| **Total liabilities and equity** | **303,832** | 313,236 |

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

**Approved by the Board**

"Dr. Jack Shevel"
Dr. Jack Shevel, Director

"Yazdi Bharucha"
Yazdi Bharucha, Director

## Centric Health Corporation
## Consolidated Statements of Income and Comprehensive Income
(in thousands of Canadian dollars, except per share amounts)

| | For the three month periods ended September 30, | | For the nine month periods ended September 30, | |
|---|---|---|---|---|
| | **2015** | 2014 (Restated - note 15) | **2015** | 2014 (Restated - note 15) |
| | **$** | $ | **$** | $ |
| Revenue | **87,128** | 75,288 | **261,359** | 228,836 |
| Cost of healthcare services and supplies | **53,885** | 45,381 | **160,565** | 137,397 |
| General and administrative expenses (note 12) | **32,320** | 29,813 | **96,686** | 90,189 |
| Transaction, restructuring and other costs (note 3) | **1,095** | 1,281 | **6,295** | 2,972 |
| **Loss from operations** | **(172)** | (1,187) | **(2,187)** | (1,722) |
| Net interest expense (note 11) | **8,519** | 8,362 | **25,828** | 24,802 |
| Change in fair value of derivative financial instruments (note 6) | **68** | (470) | **(1,499)** | 831 |
| Change in fair value of contingent consideration liability (note 3) | **182** | 48 | **233** | 695 |
| **Loss before income taxes** | **(8,941)** | (9,127) | **(26,749)** | (28,050) |
| Income tax recovery | **(3,874)** | (759) | **(2,880)** | (567) |
| **Net loss from continuing operations** | **(5,067)** | (8,368) | **(23,869)** | (27,483) |
| Income (loss) from discontinued operations (note 15) | **106** | 9,111 | **(483)** | (21,685) |
| **Net income (loss)** | **(4,961)** | 743 | **(24,352)** | (49,168) |
| Other comprehensive income: | | | | |
| Amortization of deferred gain on interest rate swaps | **—** | (5) | **(8)** | (10) |
| **Comprehensive income (loss)** | **(4,961)** | 748 | **(24,344)** | (49,158) |
| Net income (loss) attributable to: | | | | |
| Shareholders of Centric Health Corporation | **(4,999)** | 763 | **(24,309)** | (49,405) |
| Non-controlling interests | **38** | (20) | **(43)** | 237 |
| Comprehensive income (loss) attributable to: | | | | |
| Shareholders of Centric Health Corporation | **(4,999)** | 768 | **(24,301)** | (49,395) |
| Non-controlling interests | **38** | (20) | **(43)** | 237 |
| **Basic and diluted earnings per common share attributable to shareholders of Centric Health Corporation:** | | | | |
| From continuing operations | **($0.03)** | ($0.06) | **($0.15)** | ($0.19) |
| From discontinued operations | **$—** | $0.06 | **$—** | ($0.15) |
| From earnings for the period | **($0.03)** | $— | **($0.15)** | ($0.34) |
| **Weighted average number of common shares outstanding (in thousands) (note 9)** | | | | |
| Basic and diluted | **160,684** | 153,176 | **158,468** | 142,478 |

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

# Centric Health Corporation
# Consolidated Statements of Equity

(in thousands of Canadian dollars, except number of shares)

| | Number of shares[1] | Share capital $ | Warrants $ | Contributed surplus $ | Equity portion of convertible borrowings $ | AOCI[2] $ | Deficit $ | Equity attributable to the shareholders of Centric Health Corporation $ | Non-controlling interest $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2013** | **133,363,294** | **99,081** | **6,590** | **11,179** | **7,119** | **28** | **(109,822)** | **14,175** | **738** | **14,913** |
| Options and restricted share units vested and issued | 838,788 | 284 | — | (233) | — | — | — | 51 | — | 51 |
| Shares released from escrow or treasury and warrants issued as contingent consideration | 336,904 | 129 | — | — | — | — | — | 129 | — | 129 |
| Amortization of deferred gain on interest rate swap | — | — | — | — | — | (20) | — | (20) | — | (20) |
| Shares issued to GHIS on the exercise of warrants | 18,650,000 | 5,036 | (2,981) | 4,128 | — | — | — | 6,183 | — | 6,183 |
| Extinguishment of convertible debt | — | — | (10) | 10 | — | — | — | — | — | — |
| Deferred compensation expense | 200,000 | 291 | 95 | 1,356 | — | — | — | 1,742 | — | 1,742 |
| Acquisition of non-controlling interest | — | — | — | — | — | — | — | — | 506 | 506 |
| Payments to non-controlling interests | — | — | — | — | — | — | — | — | (315) | (315) |
| Net (loss) income for the year | — | — | — | — | — | — | (57,447) | (57,447) | 244 | (57,203) |
| **Balance at December 31, 2014** | **153,388,986** | **104,821** | **3,694** | **16,440** | **7,119** | **8** | **(167,269)** | **(35,187)** | **1,173** | **(34,014)** |
| Issuance of shares | 5,699,178 | 2,065 | — | — | — | — | — | 2,065 | — | 2,065 |
| Options and restricted share units vested and issued | 961,672 | 374 | — | (374) | — | — | — | — | — | — |
| Shares released from escrow or treasury and warrants issued as contingent consideration | 327,766 | 79 | — | — | — | — | — | 79 | — | 79 |
| Amortization of deferred gain on interest rate swap | — | — | — | — | — | (8) | — | (8) | — | (8) |
| Deferred compensation expense | 300,000 | 326 | 70 | 578 | — | — | — | 974 | — | 974 |
| Payments to non-controlling interests | — | — | — | — | — | — | — | — | (285) | (285) |
| Net loss for the period | — | — | — | — | — | — | (24,309) | (24,309) | (43) | (24,352) |
| **Balance at September 30, 2015** | **160,677,602** | **107,665** | **3,764** | **16,644** | **7,119** | **—** | **(191,578)** | **(56,386)** | **845** | **(55,541)** |

[1] Excludes 1,576,025 of contingent shares held in escrow and restricted shares as at September 30, 2015 (note 9).

[2]AOCI – Accumulated other comprehensive income. Balances have been recycled to net income.

*The accompanying notes are an integral part of these consolidated financial statements.*

## Centric Health Corporation
## Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

| | For the three month periods ended September 30, | | For the nine month periods ended September 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Cash provided by (used in):** | **$** | $ | **$** | $ |
| **Operating activities** | | | | |
| Net loss for the period | **(4,961)** | 743 | **(24,352)** | (49,168) |
| Adjustments for: | | | | |
| Net interest expense (note 11) | **8,519** | 8,362 | **25,828** | 24,802 |
| Change in fair value of derivative financial instruments (note 6) | **68** | (470) | **(1,499)** | 831 |
| Loss (gain) on disposal of property and equipment | **302** | — | **671** | (11) |
| Depreciation of property and equipment (note 4) | **1,434** | 1,211 | **4,084** | 4,690 |
| Amortization of finite-life intangible assets (note 4) | **5,262** | 5,482 | **15,754** | 18,544 |
| Amortization of lease incentives and lease inducements | **(246)** | 69 | **(213)** | 637 |
| Income taxes paid | **(858)** | (1,004) | **(2,343)** | (4,035) |
| Income tax recovery | **(3,874)** | (2,059) | **(2,857)** | (1,385) |
| Share-based compensation expense (note 12) | **312** | 489 | **1,024** | 1,399 |
| Transaction costs settled in shares | — | — | **500** | — |
| Impairments (note 15) | — | — | — | 21,917 |
| Change in the fair value of contingent consideration liability (note 3) | **182** | 48 | **233** | 695 |
| Gain on sale of business (note 15) | — | (7,516) | — | (4,721) |
| Net change in non-cash working capital items (note 17) | **1,190** | (3,602) | **5,206** | — |
| **Cash provided by operating activities** | **7,330** | 1,753 | **22,036** | 14,195 |
| **Investing activities** | | | | |
| Proceeds from cash held in escrow used for acquisitions and debt repayment (notes 2 and 6)[3] | — | (37,455) | **26,000** | (37,455) |
| Proceeds on disposal of property and equipment | **500** | — | **500** | 45 |
| Net proceeds from sale of businesses | — | 61,686 | — | 61,686 |
| Acquisition of businesses (note 3) | **680** | (75) | **(25,320)** | (380) |
| Purchase of intangible assets (note 4) | **(54)** | (353) | **(366)** | (709) |
| Purchase of property and equipment (note 4) | **(1,189)** | (1,759) | **(4,057)** | (5,180) |
| Payment of contingent consideration (note 3) | **(45)** | (40) | **(45)** | (65) |
| Cash transferred as part of acquisitions (note 3) | — | — | **1,606** | (1,436) |
| Decrease in loans receivable from franchisees | — | 8 | — | 78 |
| **Cash provided by (used in) investing activities** | **(108)** | 22,012 | **(1,682)** | 16,584 |
| **Financing activities** | | | | |
| Bank indebtedness | — | (663) | — | (2,625) |
| Interest paid | **(1,256)** | (1,624) | **(14,115)** | (15,163) |
| Repayment of borrowings (note 6) | — | — | **(9,842)** | (80) |
| Proceeds from (repayment of) Revolving Facility (note 6) | **(6,000)** | (14,800) | **6,000** | (8,000) |
| Repayment of finance leases | **(81)** | (45) | **(171)** | (129) |
| Payments to non-controlling interests | **(157)** | (38) | **(285)** | (170) |
| Issuance of common shares, warrants and convertible debt, net of issuance costs (note 9) | — | — | — | 1,983 |
| **Cash used in financing activities** | **(7,494)** | (17,170) | **(18,413)** | (24,184) |
| **Increase (decrease) in cash and cash equivalents** | **(272)** | 6,595 | **1,941** | 6,595 |
| **Cash and cash equivalents, beginning of period** | **2,450** | — | **237** | — |
| **Cash and cash equivalents, end of period** | **2,178** | 6,595 | **2,178** | 6,595 |

[3]The proceeds from cash held in escrow includes the $10,000 return of funds from the Revolving Facility, offset by the $10,000 repayment of the second lien senior secured notes, for a net cash impact of $nil.

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

# 1. Significant Accounting Policies

Centric Health Corporation (collectively, “Centric Health” or “the Company” together with its subsidiaries) is incorporated under the *Canada Business Corporations Act*. The Company is listed on the Toronto Stock Exchange and is incorporated and domiciled in Canada. The Company’s principal business is providing healthcare services to its patients and customers in Canada. The address of the Company’s registered office is 20 Eglinton Avenue West, Suite 2100, Toronto, Ontario.

**Basis of preparation**

These unaudited condensed interim consolidated financial statements have been prepared by the Company in accordance with IAS 34 *Interim Financial Reporting* as outlined by International Financial Reporting Standards ("IFRS"), as set out in Part I of the Chartered Professional Accountants of Canada Handbook (“CPA Canada Handbook”). They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2014.

The accounting policies applied in these unaudited condensed interim consolidated financial statements are consistent with the significant accounting policies used in the preparation of the annual consolidated financial statements for the year ended December 31, 2014. The Company has consistently applied the same accounting policies throughout all periods presented, unless otherwise noted, as if these policies had always been in effect.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors (the "Board") on November 16, 2015.

## 2. Capital Management, Liquidity Risk and Financing

The Company manages its capital structure based on the funds available to the Company in order to support the continuation and expansion of its operations. The Board of Directors establishes quantitative return on capital criteria, which it reviews with management on a regular basis. The Company defines capital to include share capital, warrants and the stock option component of its shareholders' equity as well as its Revolving Facility, second lien senior secured notes, convertible debts, preferred partnership units and contingent consideration. In addition to the cash flow generated by operations, the Company relies on debt and equity financing from both arm's length and related parties to execute on its stated business strategy. In order to maintain or adjust its capital structure, the Company may seek financing through the issuance of securities such as convertible debt, or by replacing existing debt with debt on terms more consistent with the Company's needs.

Under the April 2013 trust indenture for the second lien senior secured notes, net proceeds from divestitures can be redeployed for permitted business acquisitions, capital expenditures, acquisitions of non-current assets, repayment of senior debt that is a permanent reduction of such debt, repayment of secured debt (subject to early redemption at the Company’s option), and redemption of up to $35,000 of preferred partnership units, once the target ratio of total secured debt to cash flow is achieved. The trust indenture for the second lien senior secured notes also requires the Company maintain a minimum of $25,000 Revolving Facility for working capital purposes.

In February 2015, the Company obtained approval from both the second lien senior secured notes and Revolving Facility lenders to use $26,000 of this restricted cash to fund the cash cost of the acquisition of specialty pharmacy business Pharmacare Fulfillment Center Ltd. ("Pharmacare"). The acquisition was completed on March 2, 2015 as described in note 3.

On May 11, 2015, the lenders of the Revolving Facility amended the credit agreement, which was set to mature on June 9, 2015, for a one year extension with consistent terms and conditions. The facility's capacity has been increased to $35,000 from its previous temporary level of $25,000, an amount that effectively met the Company's operating needs. The amendment represents a $5,000 permanent reduction to the Revolving Facility's capacity as part of the Company's debt reduction strategy.

On June 25, 2015, the Company purchased an aggregate of 9,842 second lien senior secured notes for a total principal amount of $9,842 plus $159 in accrued and unpaid interest, representing $10,001 in total. The Company has now completed its planned $15,000 permanent debt reduction through this $5,000 permanent reduction to the Revolving Facility and the $9,842 redemption of the second lien senior secured notes.

As at September 30, 2015 the Company has restricted cash of $909, which decreased from the December 31, 2014 amount of $36,302 due to the cash payment on the Pharmacare acquisition, draws for capital expenditures and transaction and other costs. Restricted cash increased by $10,000 with the withdrawal of the $10,000 temporary reduction to the revolving facility offset by the use of that cash to repay $10,001 on the second lien senior secured notes. The Company intends to use the remaining restricted cash to reinvest in its core businesses through capital expenditures.

The Company is in the process of discussing strategic alternatives with external advisers on the refinancing of the $15,000 convertible debentures due April 2016 and the Revolving Facility due June 2016. With respect to the convertible debentures, such alternatives could include repayment with new financing, extensions or other repayment alternatives including converting to shares at the Company's discretion as described in note 6. The alternatives for the Revolving Facility are discussed further below, as a renewal for a one or two year period with similar terms and conditions is not the only alternative the Company is considering given the strategic review that is in process.

## 2. Capital Management, Liquidity Risk and Financing - continued

With the completion of acquisitions made during the first quarter of 2015 and the completion of the $15,000 debt reduction in the second quarter of 2015, the Company anticipates it will be in compliance with the covenants in its Revolving Facility during the remainder of 2015 and through to its renewal in June 2016. The Company expects to continue to generate sufficient cash flow to meet its obligations as they come due through future organic growth, ongoing operational improvements and cost containment initiatives. There can be no assurance that the Company will be successful in achieving the results targets as set out in its 2015 and 2016 operating plan for the balance of 2015 or through to the renewal of the Revolving Facility in 2016.

On July 27, 2015, the Company announced that its Board of Directors (the "Board") has initiated a process to consider and evaluate strategic alternatives available to the Company following unsolicited interest in certain businesses of the Company. The Company has previously disclosed that it was exploring opportunities to maximize shareholder value which included additional divestitures of existing businesses. In light of the above mentioned circumstances, the Company has established a Special Committee composed of directors who are independent of management to oversee the strategic review process. In addition to a potential sale of the Company's businesses or assets or any combination thereof, some of the strategic alternatives being considered may include, but are not limited to joint ventures, strategic financing, redemption or repurchase of securities as well as the continued execution of its business plan.

During the third-quarter of 2015 the Company engaged in discussions with interested third-parties with respect to a potential divestiture of certain businesses or assets of the Company, which is one of the alternatives currently being considered and evaluated by the Special Committee. As of the date hereof, the Special Committee has not made any recommendations and the Board has not approved any transaction. Should the Company conclude a sale or sales of businesses or assets, it is anticipated that a substantial portion of the proceeds of such a sale or sales would be used to further reduce the Company’s indebtedness.

(in thousands of Canadian dollars)

# 3. Business Combinations

**Pharmacare Fulfillment Center Ltd.**

On March 2, 2015, the Company acquired 100% of the shares of Pharmacare, a leading Alberta-based specialty pharmacy business. Pharmacare provides medication dispensing services and clinical care programs to long-term care and retirement community residents across western Canada through an integrated distribution model.

The total purchase price consideration included a combination of $26,000 in cash, 4,347,826 common shares of the Company with a fair value of $1,565 at closing based on the listed share price of the Company of $0.36 per share and contingent consideration of $9,881, representing its acquisition date fair value, payable over a three year period based on the achievement of certain targets. The contingent consideration consists of $6,832 of performance cash that has been discounted using a risk-adjusted discount rate, $2,974 of performance shares that are based on the probability of meeting certain EBITDA targets, up to a maximum of 8,260,869 performance shares, and $75 in warrants that are based on the probability of out performing certain EBITDA targets, up to a maximum of 4,000,000 warrants. The warrants have an exercise price of $0.35 per share and will have a two-year term from the date on which they vest and become exercisable.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of the acquisition:

| **Purchase price** | **$** |
|---|---|
| Cash consideration | 26,000 |
| Common shares | 1,565 |
| Contingent consideration | 9,881 |
| **Total** | **37,446** |

| **Fair value of net assets acquired** | **$** |
|---|---|
| Other current assets | 3,289 |
| Property and equipment | 2,517 |
| Goodwill and other intangibles | 33,813 |
| Less: Liabilities assumed | 2,173 |
| **Total** | **37,446** |

In the third quarter of 2015, the Company received $680 as part of the working capital settlement. The amount has been included as an adjustment to the purchase price allocation. The fair value of the assets acquired and liabilities assumed have been determined on a provisional basis. The Company will continue to review the fair values during the measurement period subject to the completion of an independent valuation.

In the three and nine month periods ended September 30, 2015, Pharmacare contributed revenue of $7,451 and $16,962 and net income of $414 and $1,413 to the Company's results. If the acquisition had occurred on January 1, 2015, management estimates that for the three and nine month periods revenue would have been $7,451 and $21,808 and net income would have been $414 and $1,817. In determining these amounts, management has assumed the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2015.

(in thousands of Canadian dollars)

## 3. Business Combinations - continued

**Active Health Services Limited ("Active")**

On February 2, 2015, the Company acquired 100% of the outstanding shares of Active, previously referred to as the Company's Seniors Wellness operations, which was sold to Lifespan Health and Wellness Limited in May 2014. Active provides rehabilitation and disability management services that focus on physiotherapy services to seniors in retirement, assisted-living and long-term care homes.

The total purchase price consideration was comprised of the settlement of the amounts owing under a promissory note previously issued in favour of the Company. The fair value of the consideration was considered to be the carrying value of the promissory note as of the date of closing.

| **Purchase price** | **$** |
|---|---|
| Note receivable | 12,000 |
| Accretion on note receivable | (2,667) |
| **Total** | **9,333** |

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of the acquisition:

| **Fair value of net assets acquired** | **$** |
|---|---|
| Cash | 1,180 |
| Other current assets | 2,348 |
| Property and equipment | 753 |
| Goodwill and other intangibles | 6,513 |
| Less: Liabilities assumed | 1,461 |
| **Total** | **9,333** |

The fair value of the assets acquired and liabilities assumed have been determined on a provisional basis. The Company will continue to review the fair values during the measurement period subject to the completion of an independent valuation.

In the three and nine month periods ended September 30, 2015, Active contributed revenue of $4,502 and $11,860 and net income of $35 and $263 to the Company’s results. If the acquisition had occurred on January 1, 2015, management estimates that for the three and nine month periods revenue would have been $4,502 and $13,342 and net income would have been $35 and $296. In determining these amounts, management has assumed the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2015.

(in thousands of Canadian dollars)

## 3. Business Combinations - continued

**Community Advantage Rehabilitation ("CAR")**

On February 2, 2015, the Company acquired 100% of the outstanding shares of CAR, previously referred to as the Company's Home Care operations, which was sold to Lifespan Health and Wellness Limited in May 2014. CAR is engaged in the home care business, including the provision of assisted devices programs and other assessment services, physiotherapy services, occupational therapy and homecare assistance.

The total purchase price consideration was comprised of the settlement of the amounts owing under a promissory note previously issued in favour of the Company. The fair value of the consideration was considered to be the carrying value of the promissory note as of the date of closing.

| **Purchase price** | **$** |
|---|---|
| Note receivable | 2,500 |
| Accretion on note receivable | (327) |
| **Total** | **2,173** |

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of the acquisition:

| **Fair value of net assets acquired** | **$** |
|---|---|
| Cash | 426 |
| Other current assets | 494 |
| Property and equipment | 15 |
| Goodwill and other intangibles | 1,495 |
| Less: Liabilities assumed | 257 |
| **Total** | **2,173** |

The fair value of the assets acquired and liabilities assumed have been determined on a provisional basis. The Company will continue to review the fair values during the measurement period subject to the completion of an independent valuation.

In the three and nine month periods ended September 30, 2015, CAR contributed revenue of $944 and $3,150 and net income of $3 and $157 to the Company's results. If the acquisition had occurred on January 1, 2015, management estimates that for the three and nine month periods revenue would have been $944 and $3,544 and net income would have been $3 and $176. In determining these amounts, management has assumed the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2015.

(in thousands of Canadian dollars)

## 3. Business Combinations - continued

**Transaction, restructuring and other costs**

Transaction, restructuring and other costs incurred, including legal, consulting and due diligence fees, directly related to business combinations as well as severance costs and start-up costs for new initiatives, and legal and consulting costs for business restructuring are expensed as incurred. Start-up costs for new initiatives are costs incurred by the Company for a new business initiative prior to this initiative generating any revenue. Restructuring costs include costs associated with closed clinic locations and other staffing reductions. Included in transaction costs for the three and nine month periods ended September 30, 2015 are advisory fees of $nil and $450 (2014 - $225 and $675) related to Global Healthcare Investments and Solutions, Inc. ("GHIS"), a related party. This represents the portion of monthly fees which is associated with transaction related activities.

Transaction, restructuring and other costs for the three and nine month periods ended September 30, 2015 and 2014 consist of the following:

| | **For the three month periods ended September 30,** | | **For the nine month periods ended September 30,** | |
|---|---|---|---|---|
| | **2015** | 2014 (Restated - note 15) | **2015** | 2014 (Restated - note 15) |
| | **$** | $ | **$** | $ |
| Transaction costs | **152** | 257 | **2,437** | 468 |
| Start-up costs | **10** | 104 | **71** | 309 |
| Restructuring and other costs | **933** | 920 | **3,787** | 2,195 |
| **Total** | **1,095** | 1,281 | **6,295** | 2,972 |

At September 30, 2015, the Company had accrued liabilities related to transaction, restructuring and other costs of $1,469 (December 31, 2014 - $1,170) included in trade and other payables consisting of the following:

| | **Severance $** | **Closed Locations $** | **Acquisitions $** | **Total $** |
|---|---|---|---|---|
| Balance at December 31, 2014 | 712 | 458 | — | **1,170** |
| Amount related to discontinued operations | (308) | — | — | **(308)** |
| Additions | 1,539 | — | 1,492 | **3,031** |
| Payments | (642) | (109) | (1,331) | **(2,082)** |
| Reversals | (280) | (62) | — | **(342)** |
| **Balance at September 30, 2015** | **1,021** | **287** | **161** | **1,469** |

(in thousands of Canadian dollars)

## 3. Business Combinations - continued

### Contingent consideration

The fair value of contingent consideration is an estimate. The valuation model considers possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario. The fair value is dependent on certain inputs such as forecast EBITDA, risk adjusted discount rates and the Company's share price.

The continuity of the contingent consideration liability to be settled in cash, common shares and warrants is as follows:

| | SmartShape $ | Classic Care $ | Pharmacare $ | Other $ | Total $ |
|---|---|---|---|---|---|
| Balance at December 31, 2014: | 1,882 | 1,862 | — | 401 | **4,145** |
| Fair value at date of acquisition | — | — | 9,881 | — | **9,881** |
| Change in fair value during the period | 37 | 279 | (311) | 46 | **51** |
| Total contingent consideration at June 30, 2015 | 1,919 | 2,141 | 9,570 | 447 | **14,077** |
| Change in fair value during the period | 39 | — | 152 | (9) | **182** |
| Contingent consideration settled in shares | — | — | — | (79) | **(79)** |
| Contingent consideration settled in cash | — | — | — | (45) | **(45)** |
| **Total contingent consideration at September 30, 2015** | **1,958** | **2,141** | **9,722** | **314** | **14,135** |
| **Less: current portion** | **325** | **2,141** | **3,454** | **53** | **5,973** |
| **Non-current portion at September 30, 2015** | **1,633** | **—** | **6,268** | **261** | **8,162** |

In connection with the November 2011 purchase of Classic Care Pharmacy Corporation ("Classic Care"), a settlement for a dispute was reached with one of the vendors. As part of the settlement, the Company agreed to contingent payment terms, which may be payable depending on the Company's share price after the Company releases results for the second quarter of 2016 and can be settled in cash or shares, as specified in the terms of the settlement. As a result, the Company recorded a contingent consideration liability with a fair value as of September 30, 2015 of $2,141 (December 31, 2014 - $1,862).

On March 2, 2015, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of Pharmacare in the amount of $9,881, which represents its fair value at the date of acquisition. The valuation method is based on a risk adjusted discount rate of 9.5% and a share price of the Company's common shares on September 30, 2015 ($0.30 per share). The valuation of the liability is dependent on actual EBITDA being greater than or equal to EBITDA targets of $6,750, $7,500 and $8,250 for each of the three earn-out years. At September 30, 2015, the Company estimated the probability of meeting these targets to be 100%. The fair value of the contingent consideration has decreased to $9,722 as of September 30, 2015.

(in thousands of Canadian dollars)

# 4. Goodwill, Intangible Assets and Property and Equipment

| | Goodwill $ | Intangible Assets $ | Goodwill and Intangible Assets $ | Property and Equipment $ |
|---|---|---|---|---|
| **Year ended December 31, 2014** | | | | |
| **Cost** | | | | |
| Balance at December 31, 2013 | 171,002 | 192,286 | 363,288 | 47,270 |
| Additions | 266 | 911 | 1,177 | 7,084 |
| Disposals | (5,653) | — | (5,653) | (68) |
| Disposals from sale of business | — | (25,822) | (25,822) | (17,492) |
| Purchase price allocation adjustment | (1,536) | 2,840 | 1,304 | — |
| Impairment | (20,465) | (1,123) | (21,588) | (329) |
| Balance at December 31, 2014 | 143,614 | 169,092 | 312,706 | 36,465 |
| **Accumulated amortization** | | | | |
| Balance at December 31, 2013 | — | (92,411) | (92,411) | (20,935) |
| Amortization charge | — | (21,051) | (21,051) | (4,866) |
| Accumulated amortization of disposals | — | — | — | 26 |
| Accumulated amortization of disposals from sale of business | — | — | — | 9,382 |
| Amortization of disposal group | — | (2,743) | (2,743) | (1,051) |
| Balance at December 31, 2014 | — | (116,205) | (116,205) | (17,444) |
| **Period ended September 30, 2015** | | | | |
| **Cost** | | | | |
| Balance at December 31, 2014 | 143,614 | 169,092 | 312,706 | 36,465 |
| Additions | — | 366 | 366 | 4,308 |
| Acquisition of business | 41,821 | — | 41,821 | 3,285 |
| Disposals | — | (250) | (250) | (1,904) |
| Purchase price allocation adjustment | (711) | — | (711) | — |
| **Balance at September 30, 2015** | **184,724** | **169,208** | **353,932** | **42,154** |
| **Accumulated amortization** | | | | |
| Balance at December 31, 2014 | — | (116,205) | (116,205) | (17,444) |
| Amortization charge | — | (15,754) | (15,754) | (4,084) |
| Accumulated amortization of disposals | — | — | — | 984 |
| **Balance at September 30, 2015** | — | **(131,959)** | **(131,959)** | **(20,544)** |
| **Net carrying value** | | | | |
| As at December 31, 2014 | 143,614 | 52,887 | 196,501 | 19,021 |
| **As at September 30, 2015** | **184,724** | **37,249** | **221,973** | **21,610** |

Included in the net carrying value of medical and physiotherapy equipment are assets under finance leases of $722 (December 31, 2014 - $262). During the three and nine month periods ended September 30, 2015, additions of medical equipment acquired through finance leases were $132 and $251 (2014 - $nil).

(in thousands of Canadian dollars)

## 4. Goodwill, Intangible Assets and Property and Equipment - continued

The Company has $1,406 of indefinite life intangible assets at September 30, 2015 (December 31, 2014 - $1,656).

The Company did not identify any indicators of impairment during the three and nine month periods ended September 30, 2015.

The Company did not reverse any impairment losses for definite life intangible assets for the three and nine month periods ended September 30, 2015 and 2014.

## 5. Trade Payables and Other Amounts

Trade payables and other amounts at September 30, 2015 and December 31, 2014 are comprised of the following:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| Trade payables | **17,611** | 21,478 |
| Accrued liabilities | **24,093** | 18,074 |
| Deferred revenue | **832** | 1,084 |
| Amounts payable to related parties (note 10) | **62** | 180 |
| Restructuring costs (note 3) | **1,469** | 1,170 |
| **Total** | **44,067** | 41,986 |

(in thousands of Canadian dollars)

# 6. Borrowings

Borrowings consist of the following:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| Second lien senior secured notes | **190,158** | 200,000 |
| Loan arrangement costs | **(2,942)** | (3,979) |
| Revolving Facility | **21,000** | 15,000 |
| Convertible debt | **53,308** | 53,308 |
| Unaccreted discount on convertible debt | **(8,310)** | (12,139) |
| Fair value of redemption features[4] | **—** | (220) |
| Related party convertible loan (note 10) | **5,000** | 5,000 |
| Unaccreted discount on related party convertible loan | **(1,507)** | (1,812) |
| Total borrowings | **256,707** | 255,158 |
| Less current portion of borrowings: | | |
| Revolving Facility | **21,000** | 15,000 |
| Convertible debt - private placement net of unaccreted discount | **13,927** | — |
| Total current portion of borrowings | **34,927** | 15,000 |
| Total non-current portion of borrowings | **221,780** | 240,158 |

[4] Fair value of redemption features are embedded derivatives in the private placement and second lien senior secured notes which are netted against the debt amount for presentation purposes.

On April 18, 2013, the Company completed a $200,000 public offering of second lien senior secured notes which bear interest at 8.625% with the principal due on April 18, 2018. There are no principal repayments required for the second lien senior secured notes prior to maturity. The second lien senior notes contain certain redemption features which are at the option of the Company commencing on April 18, 2016. These redemption features are considered embedded derivatives that have been valued at $nil at September 30, 2015 (December 31, 2014 - $nil). The second lien senior secured notes include certain restrictions on the Company's ability to take on additional indebtedness based on its financial performance. The Company used the proceeds from this offering to repay its Term Loan and Revolving Facility and repay $10,000 of preferred partnership units.

On June 25, 2015, the Company purchased an aggregate of 9,842 second lien senior secured notes for a total principal amount of $9,842 plus $159 in accrued and unpaid interest, representing an aggregate of $10,001, resulting in a permanent reduction on the balance of the second lien senior secured notes. As part of the repurchase, the Company recorded a loss on repurchase of notes for the three and nine month periods ended September 30, 2015 of $nil and $166.

The Revolving Facility bears interest on a sliding scale from prime plus 1.5% to prime plus 3.75% for principal borrowed and a range of 0.63% to 1.19% for standby fees for amounts not borrowed. This Revolving Facility includes quarterly financial performance measurement covenants.

On May 11, 2015, the lenders of the Revolving Facility amended the credit agreement, which was set to mature on June 9, 2015, for a one year extension with consistent terms and conditions. The facility's capacity has been increased to $35,000 from its previous temporary level of $25,000, an amount that effectively met the Company's operating needs. The amendment represents a $5,000 permanent reduction to the Revolving Facility's capacity as part of the Company's debt reduction strategy.

(in thousands of Canadian dollars)

## 6. Borrowings - continued

The Company was in compliance with its financial performance covenants at September 30, 2015.

Substantially all of the Company's assets are pledged as security for the above borrowings with first security provided to the lenders of the Revolving Credit Facility, followed by holders of the second lien senior secured notes.

The Company's convertible debt as at September 30, 2015 and excluding related party convertible debt, consists of the following, of which the interest and principal can be settled in common shares at the option of the Company:

| Debt instrument | Principal ($) | Maturity | Interest Rate |
|---|---|---|---|
| Directed share program | 10,808 | December 22, 2016 | 6.00% |
| Private placement | 15,000 | April 30, 2016 | 5.50% |
| Public debt | 27,500 | October 31, 2017 | 6.75% |
| **Total** | **53,308** | | |

The Company is in the process of discussing strategic alternatives with external advisers on the refinancing of the $15,000 convertible debentures due April 2016. Such alternatives could include repayment with new financing, extensions or other repayment alternatives including converting to shares at the Company's discretion.

The continuity of the unaccreted discount on convertible debt is as follows:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| Unaccreted discount on convertible borrowings, beginning of period | **12,139** | 16,490 |
| Accretion expense (note 11) | **(3,829)** | (4,351) |
| Unaccreted discount on convertible borrowings, end of period | **8,310** | 12,139 |

The continuity of the redemption features are as follows:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Redemption feature, beginning of period | **(220)** | — |
| Change in fair value of redemption features | **220** | (220) |
| Redemption features, end of period | **—** | (220) |

The derivative liability portion of convertible borrowings is as follows:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | **$** |
| Derivative liability portion of convertible borrowings, beginning of period | **2,346** | 1,720 |
| Change in fair value of derivative liability portion of convertible borrowings | **(1,717)** | 626 |
| Derivative liability portion of convertible borrowings, end of period | **629** | 2,346 |

(in thousands of Canadian dollars)

## 6. Borrowings - continued

The fair value of the derivative liability portion of convertible borrowings is based on a modified Black-Scholes valuation method. The key valuation assumptions at September 30, 2015 are as follows:

| | **Directed share program** | **Public debt** | **Private placement redemption feature** |
|---|---|---|---|
| Expected volatility | 49.03% | 49.03% | 49.03% |
| Risk-free interest rate | 0.85% | 0.80% | 0.84% |
| Credit spread | 99.20% | 99.20% | 99.20% |

The change in fair value of derivative financial instruments for the three and nine month periods ended September 30, 2015 and 2014 are as follows:

| | **For the three month periods ended September 30,** | | **For the nine month periods ended September 30,** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$** | $ | **$** | $ |
| Change in fair value of interest rate swaps | **—** | (21) | **(2)** | (57) |
| Change in fair value of redemption feature | **—** | (171) | **220** | 270 |
| Change in fair value of derivative liability portion of convertible borrowings | **68** | (278) | **(1,717)** | 618 |
| **Total** | **68** | (470) | **(1,499)** | 831 |

## 7. Preferred Partnership Units

The balance of $37,098 (December 31, 2014 - $36,102) represents preferred partnership units issued by LifeMark Health Limited Partnership to Alaris Income Growth Fund Partnership (“Alaris”). There were $65,500 of units that were assumed on the acquisition of LifeMark on June 9, 2011. On April 18, 2013, the Company repaid $22,500 of the preferred partnership units and on June 9, 2013 repaid $7,500 of the preferred partnership units. The principal balance grows at 4% annually from the third anniversary of June 9, 2014. The Company is not required to redeem the preferred partnership units until 2084. Alaris is entitled to annual distributions of $4,115 for the annual period commencing July 1, 2014 with annual increases of 4% at the end of each year thereafter. The Company intends on redeeming the preferred partnership units by June 9, 2017 and has presented this amount as a long-term liability. The Company is accreting to interest expense the amount expected to be payable on June 9, 2017 of $39,933.

(in thousands of Canadian dollars)

## 8. Financial Instruments and Fair Value Measurements

At September 30, 2015, the Company's financial instruments consisted of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, contingent consideration, finance lease liabilities, borrowings, preferred partnership units, and derivative liabilities.

*Fair value hierarchy*
Financial instruments carried at fair value have been categorized under three levels of fair value hierarchy as follows:

- *Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities*
  Fair value is determined based on quoted prices of regularly and recently occurring transactions take place.

- *Level 2: Inputs that are observable for the assets or liabilities either directly or indirectly*
  This level of the hierarchy includes derivative financial instruments with major Canadian chartered banks.

  *Level 3: Inputs for assets or liabilities that are not based on observable market data.*
  This level of the hierarchy includes contingent consideration settled with the Company's shares and derivative liabilities associated with convertible loans.

Recurring fair value measurements at September 30, 2015 are as follows:

| | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|
| Contingent consideration | — | 14,135 | **14,135** |
| Derivative liabilities associated with convertible loans | — | 629 | **629** |
| **Total** | **—** | **14,764** | **14,764** |

Recurring fair value measurements at December 31, 2014 are as follows:

| | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|
| Contingent consideration | — | 4,145 | **4,145** |
| Interest rate swap | 40 | — | **40** |
| Derivative liabilities associated with convertible loans | — | 2,346 | **2,346** |
| Loan redemption features | — | (220) | **(220)** |
| **Total** | **40** | **6,271** | **6,311** |

There were no non-recurring fair value measurements at September 30, 2015. There were no financial instruments classified as level 1 at September 30, 2015 and 2014. There were no transfers between levels 1 and 2 during the three and nine month periods ended September 30, 2015.

The level 2 fair value of derivative financial instruments relates to interest rate swap agreements and are based on the value of the swap agreement as compared to current market rates.

Details regarding level 3 fair value measurements for contingent consideration can be found in note 3 and for the derivative financial instruments related to derivative liability component of convertible debt and loan redemption features in note 6.

(in thousands of Canadian dollars)

## 8. Financial Instruments and Fair Value Measurements - continued

There were no changes in the valuation techniques used during the three and nine month periods ended September 30, 2015.

The carrying value of financial assets and financial liabilities from continuing operations that are measured at amortized cost is an approximation of the fair value for the following financial assets and financial liabilities unless otherwise disclosed below:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| Financial assets measured at amortized cost | | |
| Cash and cash equivalents | **2,178** | 237 |
| Restricted cash | **909** | 36,302 |
| Trade and other receivables | **38,104** | 35,043 |
| Loans receivable | **—** | 11,484 |
| Financial liabilities measured at amortized cost | | |
| Trade payables and other amounts | **44,067** | 41,986 |
| Finance lease liability | **722** | 252 |
| Second lien senior secured notes | **187,216** | 196,021 |
| Convertible borrowings | **44,998** | 41,169 |
| Revolving facility | **21,000** | 15,000 |
| Related party convertible loan | **3,493** | 3,188 |
| Preferred partnership units | **37,098** | 36,102 |

The fair value of the second lien senior secured notes at September 30, 2015 is $151,889 (December 31, 2014 - $171,000) and has a carrying value of $187,216 (December 31, 2014 - $196,021). The fair value of the second lien senior secured notes was determined by using a discounted cash flow method with a risk-adjusted discount rate (risk free rate of 0.87% and credit spread of 18.38%).

The fair value of the convertible borrowings, excluding Jamon, a related party, as at September 30, 2015 is $24,193 (December 31, 2014 - $26,539) and has a carrying value of $44,998 (December 31, 2014 - $41,169). The fair value of the convertible borrowings was determined by using a discounted cash flow method with a risk-adjusted discount rate (risk free rate of 0.80% to 0.85% and credit spread of 99.20%).

The fair value of the convertible borrowings owed to Jamon, a related party, as at September 30, 2015 is estimated to be its current redemption value of $5,000 and has a carrying value of $3,493 (December 31, 2014 - $3,188).

*Credit Risk*
The Company is exposed to credit risk to the extent that its clients become unable to meet their payment obligations. The Company's exposure to concentrations of credit risk is limited. Trade receivables include amounts receivable from the sale of goods and services to the Workplace Safety and Insurance Board and other government agencies, employers, insurance companies and individual patients.

(in thousands of Canadian dollars)

## 8. Financial Instruments and Fair Value Measurements - continued

Trade and other receivables aging was as follows:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| 0 - 30 days | **30,709** | 27,311 |
| 31-60 days | **4,359** | 4,639 |
| 61-90 days | **2,015** | 1,532 |
| Over 90 days | **1,021** | 1,561 |
| | **38,104** | 35,043 |

Included in trade and other receivables at September 30, 2015 are $6,198 (December 31, 2014 - $5,562) of amounts receivable from government funding related to product sales and services rendered.

The movement in the provision for impairment against trade and other receivables was as follows:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| Provision, beginning of period | **392** | 4,373 |
| Amounts transferred to discontinued operations | **—** | (3,938) |
| Provision for receivables impairment | **(250)** | 94 |
| Receivables written off and unused amounts reversed | **175** | (137) |
| Provision, end of period | **317** | 392 |

The Company's cash and cash equivalents and restricted cash are held through Canadian chartered banks. The Company is not exposed to significant credit risk arising from its financial instruments.

*Liquidity Risk*
Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash, another financial asset or equity instruments. The following table presents the contractual terms to maturity of the financial liabilities owned by the Company as at September 30, 2015 :

| | **Total** | 2015 | 2016-2017 | 2018-2019 | Thereafter |
|---|---|---|---|---|---|
| | **$** | $ | $ | $ | $ |
| Trade payables and other amounts | **44,067** | 44,067 | — | — | — |
| Second lien senior secured notes | **190,158** | — | — | 190,158 | — |
| Convertible borrowings | **53,308** | — | 53,308 | — | — |
| Related party convertible loan | **5,000** | — | — | 5,000 | — |
| Revolving Facility | **21,000** | — | 21,000 | — | — |
| Finance leases | **722** | 87 | 551 | 84 | — |
| Interest payments on borrowings | **52,711** | 10,098 | 37,729 | 4,884 | — |
| Operating leases | **48,209** | 2,767 | 18,967 | 13,516 | 12,959 |
| Preferred partnership units | **37,098** | — | — | — | 37,098 |
| | **452,273** | **57,019** | **131,555** | **213,642** | **50,057** |

## 8. Financial Instruments and Fair Value Measurements - continued

The Company incurs interest on its Revolving Facility. Future interest to be paid on the revolving facility cannot be reasonably determined due to the ongoing fluctuation of the Revolving Facility balance.

In the normal course of business, the Company enters into significant commitments for the purchase of goods and services, such as the purchase of inventory, most of which are short-term in nature and are settled under normal trade terms.

*Interest Rate Risk*
Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. The Company is exposed to interest rate risk through its floating rate Revolving Facility, whose interest rates are based on prime.

As at September 30, 2015, a 1% change in the variable interest rates on the average balances for the nine month period ended September 30, 2015 would have resulted in an annualized change in interest expense of approximately $180 (December 31, 2014 - $190).

*Currency Risk*
Virtually all of the Company's transactions are denominated in Canadian dollars. At September 30, 2015 and December 31, 2014, the Company held no significant financial instruments that were denominated in a currency other than Canadian currency.

(in thousands of Canadian dollars)

# 9. Shareholders' Equity and Earnings per Share

Authorized share capital consists of an unlimited number of common shares. The number of common shares issued and outstanding is as follows:

| **For the period ended<br>($ thousands, except share amounts)** | **September 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| **Common shares** | **Shares** | **Stated value<br>$** | Shares | Stated value<br>$ |
| Balance, beginning of period | **153,388,986** | **104,821** | 133,363,294 | 99,081 |
| Issuance of shares | **5,699,178** | **2,065** | — | — |
| Issuance of shares as compensation | **300,000** | **326** | 200,000 | 291 |
| Issuance of shares for the settlement of contingent consideration[5] | **327,766** | **79** | 336,904 | 129 |
| Shares issued to GHIS for the exercise of warrants | — | — | 18,650,000 | 5,036 |
| Stock options and restricted share units exercised | **961,672** | **374** | 838,788 | 284 |
| Balance, end of period | **160,677,602** | **107,665** | 153,388,986 | 104,821 |

[5]Consists of 89,875 common shares issued from treasury and 237,891 common shares released from escrow for the settlement of earn-outs for three physiotherapy clinics for the period ended September 30, 2015.

The number of common shares considered to be issued for financial reporting purposes is exclusive of restricted shares issued, shares issued in trust or held in escrow pending the achievement of certain stated milestones or performance targets.

The total common shares in aggregate at September 30, 2015 are:

| **Type of common shares** | |
|---|---|
| Freely tradeable | 160,677,602 |
| Escrowed and restricted | 1,576,025 |
| **Total** | **162,253,627** |

Common shares related to contingent consideration held in escrow, as discussed in note 3, and restricted shares at September 30, 2015 are as follows:

| **Entity** | **Escrowed and restricted shares** |
|---|---|
| London Scoping Centre | 176,632 |
| SmartShape | 1,075,000 |
| Other | 24,393 |
| Restricted compensation shares | 300,000 |
| **Total** | **1,576,025** |

The continuity of restricted and escrowed shares for the nine month period ended September 30, 2015 is as follows:

| **Escrowed and restricted shares** | |
|---|---|
| Balance at beginning of the period | 2,113,916 |
| Released restricted shares | (537,891) |
| **Total** | **1,576,025** |

(in thousands of Canadian dollars)

## 9. Shareholders' Equity and Earnings per Share - continued

*Issuance of common shares and warrants*
On September 3, 2012, the Company issued 1,000,000 common shares to the CEO of the Company. These shares are held by the Company and released to the CEO as freely tradeable over a four year period whereby 200,000 shares were released on both January 1, 2013 and January 1, 2014, 300,000 shares were released on January 1, 2015 and 300,000 shares will be released on January 1, 2016. These shares are being treated as share based compensation for accounting purposes.

On March 2, 2015, the Company issued 4,347,826 common shares as part of the consideration for the acquisition of Pharmacare. The shares became freely tradeable upon closing of the acquisition.

On March 18, 2015, the Company issued 1,351,352 common shares as part of a third party advisory services agreement related to the acquisition of Pharmacare. The shares were issued at the market price at the date immediately prior to the issuance of $0.37 per share. The shares are being treated as part of transaction costs related to the closing of the acquisition.

In June 2015, the Company issued 961,672 common shares to certain members of management and employees related to restricted share units that have vested.

On August 31, 2015 and September 3, 2015, the Company issued 89,875 and 237,891 common shares, respectively, related to contingent consideration payments for the settlement of earnouts of three physiotherapy clinics.

*Issuance of stock options, warrants, deferred stock-based compensation*
On March 31, 2015, the Company issued 1,000,000 stock options to management and employees as part of the acquisition of Pharmacare. All of the options were issued at a strike price of $0.40. The fair value of the options is $0.20 per option using the Black-Scholes pricing model with the following assumptions:

| | |
|---|---|
| Dividend yield | Nil |
| Expected volatility | 64% to 75% |
| Risk-free interest rate | 0.59% |
| Expected life in years | 3.8 |
| Share price at date of issue | $0.40 |
| Forfeiture rate | 10% |

The Company's outstanding and exercisable stock options are as follows:

| **For the period ended** | **September 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| **Common share options** | **Options** | **Weighted average exercise price** | Options | Weighted average exercise price |
| Balance, beginning of period | **6,871,000** | **$1.45** | 8,806,000 | $1.37 |
| Options granted | **1,000,000** | **$0.40** | — | — |
| Options expired | **(175,000)** | **$0.68** | (925,000) | 0.93 |
| Options canceled /forfeited | **(1,705,000)** | **$1.11** | (1,010,000) | 1.17 |
| Balance, end of period | **5,991,000** | **$1.40** | 6,871,000 | $1.45 |
| Exercisable, end of period | **4,412,250** | **$1.64** | 4,619,500 | $1.52 |

(in thousands of Canadian dollars)

## 9. Shareholders' Equity and Earnings per Share - continued

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding as at September 30, 2015 are as follows:

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Range of Exercise Price** | **Number Outstanding** | **Weighted Average Exercise Price** | **Weighted Average Remaining Contractual Life (years)** | **Number Exercisable** | **Weighted Average Exercise Price** |
| $0.39 - $0.50 | 1,170,000 | $0.40 | 4.3 | 42,500 | $0.39 |
| $0.51 - $1.00 | 925,000 | 0.87 | 1.1 | 768,750 | 0.85 |
| $1.01 - $1.88 | 3,896,000 | 1.82 | 0.9 | 3,601,000 | 1.82 |
| **Balance, end of period** | **5,991,000** | **$1.40** | **1.6** | **4,412,250** | **$1.64** |

On March 18, 2015 the Company issued 835,000 restricted share units to management and employees which entitle the holders to 835,000 common shares of the Company. These restricted share units have been fair-valued based on the quoted market price on the date of issuance of $0.385 per share and vest over three years.

The Company's outstanding restricted share units are as follows:

| **For the periods ended** | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| **Restricted share units** | **Units** | Units |
| Balance, beginning of period | **3,414,835** | 1,583,548 |
| Restricted share units granted | **835,000** | 2,851,513 |
| Restricted share units released | **(961,672)** | (838,788) |
| Restricted share units forfeited | **(365,677)** | (181,438) |
| Balance, end of period | **2,922,486** | 3,414,835 |

The weighted-average remaining contractual life of restricted share units outstanding as at September 30, 2015 is 1.78 years.

The Company's outstanding and exercisable warrants are as follows:

| **For the periods ended** | **September 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| **Share purchase warrants** | **Warrants** | **Weighted average exercise price** | Warrants | Weighted average exercise price |
| Balance, beginning of period | **12,694,427** | **$1.31** | 33,177,310 | $0.71 |
| Warrants granted | — | — | 17,117 | 1.56 |
| Warrants exercised | — | — | (18,650,000) | 0.33 |
| Warrants expired | — | — | (1,850,000) | 0.33 |
| Balance, end of period | **12,694,427** | **$1.31** | 12,694,427 | $1.31 |
| Exercisable, end of period | **10,948,264** | **$1.26** | 10,948,264 | $1.26 |

(in thousands of Canadian dollars)

## 9. Shareholders' Equity and Earnings per Share - continued

The weighted-average remaining contractual life and weighted-average exercise price of warrants outstanding as at September 30, 2015 are as follows:

| Warrants Outstanding | | | | Warrants Exercisable | |
|---|---|---|---|---|---|
| **Range of Exercise Price** | **Number Outstanding** | **Weighted Average Exercise Price** | **Weighted Average Remaining Contractual Life (years)** | **Number Exercisable** | **Weighted Average Exercise Price** |
| **\$0.46 - \$1.78** | **12,694,427** | **\$1.31** | **0.7** | **10,948,264** | **\$1.26** |

*Earnings per share*
Earnings per share has been calculated on the basis of profit or loss for the year divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share, for all periods presented, was calculated based on the weighted average number of common shares outstanding and takes into account the effects of unvested shares, share options, warrants and convertible debt outstanding during the period. Earnings per share is not adjusted for anti-dilutive instruments. The weighted average calculation is based on a time weighting factor that includes all share options, restricted share units, warrants and conversion features that were issued at prices lower than the market price of the Company's common shares at the respective period-ends.

The following table illustrates the basic and diluted weighted average shares outstanding for the three and nine month periods ended September 30, 2015 and 2014:

| | For the three month periods ended September 30, | | For the nine month periods ended September 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Basic and diluted weighted average shares outstanding | **160,684,489** | 153,176,350 | **158,468,091** | 142,477,917 |

## 10. Related Party Transactions and Balances

In the normal course of operations, the Company has entered into certain related party transactions for consideration established with the related parties and are approved by the independent non-executive directors of the Company or are at market terms.

*Related party transactions*
Related party transactions, in addition to those entered into with Company directors and management, have been entered into with GHIS and entities controlled and related to the shareholders of GHIS including Jamon Investments LLC ("Jamon"), who own 59,551,287 shares or approximately 37% of the issued and outstanding common shares of the Company as at September 30, 2015. This ownership percentage disclosed assumes the issuance of 1,576,025 escrowed and restricted shares in the total common shares considered to be outstanding.

On March 21, 2013, GHIS and the Company negotiated an amended consulting agreement which eliminated the completion fees, removed the consulting fees for the year ended December 31, 2013, and amended the consulting fees to $75 per month from January 2014 to the completion of the agreement in June 2015. In light of management's leadership, the Company and GHIS have agreed not to renew the advisory agreement. The representatives of GHIS will continue to serve on the Board of Directors and various Sub Committees.

For the three and nine month periods ended September 30, 2015, the Company incurred $nil and $450 (2014 - $225 and $675) in GHIS consulting fees, $nil and $39 (2014 - $18 and $66) in GHIS travel related expenses and $75 and $225 (2014 - $nil and $135) in interest on related party amounts.

Included in trade payables and other amounts at September 30, 2015 are $26 (December 31, 2014 - $155) due to GHIS and $24 (December 31, 2014 - $25) for interest payable to Jamon.

The Company holds a lease agreement for the use of a medical office as part of its Performance Medical Group operations which is owned by a director of Performance Medical Group. The Company's lease expense for this location for the three and nine month periods ended September 30, 2015 was $29 and $88 (2014 - $29 and $59).

In June 2015, the Company entered into a service agreement with a corporation related to a member of senior management of the Company whereby the Company will fill prescriptions from a customer list that the corporation has rights to in exchange for a fixed fee per prescription. The fee is up to a maximum of $115 over a twelve month period. For the three and nine month periods ended September 30, 2015, the Company recorded an expense of $22 and $34 (2014 - $nil and $nil) related to the fee owed to the corporation. Included in trade payables and other amounts at September 30, 2015 are $34 (December 31, 2014 - $nil) due to the corporation related to these services.

*Related party loans*
The Company has a promissory note with Jamon for $5,000 that bears interest at 6% with a conversion feature which is due April 30, 2018. The conversion price for the note is $0.46 per share and the conversion of the note is at the option of the holder. In addition to the promissory note, Jamon was issued a warrant to purchase 1,000,000 common shares of the Company at an exercise price of $0.46 per share which expires on April 30, 2018.

In the third quarter of 2014, the Company launched a Key Employee Engagement Share Plan ("KEESP") to enable eligible employees to acquire common shares of the Company. The KEESP allows employees to contribute towards the purchase of common shares of the Company whereby the Company will match employee contributions by up to three times with payments capped at a predetermined level. The portion of funds matched by the Company is repayable by the employees as a promissory note bearing interest at 3% in equal annual installments over five years. A receivable from employees of $136 (December 31, 2014 - $136) has been included in trade and other receivables.

(in thousands of Canadian dollars)

## 10. Related Party Transactions and Balances - continued

On August 14, 2012, the Company entered into a promissory note with the Company's CEO for $500 who is a director and officer of the Company. This promissory note bears interest at 4% per annum. The promissory note and related interest will be forgiven by the Company if the CEO is employed on the maturity date of September 3, 2016. If the CEO resigns prior to September 3, 2016, the promissory note and related interest is repayable on demand. In addition, a private placement for 782,227 common shares at a price of $0.64 per share and 782,227 warrants with an exercise price of $0.75 per share was completed with the CEO on August 14, 2012.

## 11. Net Interest Expense

Net interest expense for the three and nine month periods ended September 30, 2015 and 2014 is comprised of the following:

| | For the three month periods ended September 30, | | For the nine month periods ended September 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$** | $ | **$** | $ |
| Interest on Revolving Facility and second lien senior secured notes | **4,473** | 4,960 | **14,000** | 14,742 |
| Amortization of loan arrangement fees | **258** | 309 | **872** | 921 |
| Interest on related party amounts | **76** | 76 | **224** | 360 |
| Accretion on related party loan | **107** | 87 | **305** | 271 |
| Interest on capital leases | **10** | 17 | **26** | 44 |
| Amortization of deferred gain on interest rate swap | **—** | (5) | **(8)** | (15) |
| Interest on convertible debt | **839** | 840 | **2,488** | 2,482 |
| Accretion on convertible debt | **1,342** | 1,097 | **3,829** | 3,198 |
| Accretion on preferred partnership units | **345** | 270 | **996** | 295 |
| Accretion on Loans Receivable | **—** | (45) | **(22)** | (86) |
| Gain on settlement of swaps | **—** | — | **(14)** | — |
| Loss on repayment of borrowings | **—** | — | **166** | — |
| Interest expense before distributions for preferred partnership units | **7,450** | 7,606 | **22,862** | 22,212 |
| Distributions for preferred partnership units | **1,070** | 1,029 | **3,128** | 3,020 |
| Total interest expense | **8,520** | 8,635 | **25,990** | 25,232 |
| Interest income | **(1)** | (273) | **(162)** | (430) |
| Net interest expense | **8,519** | 8,362 | **25,828** | 24,802 |

(in thousands of Canadian dollars)

## 12. General and Administrative Expenses

The components of general and administrative expenses are as follows:

| | For the three month periods ended September 30, | | For the nine month periods ended September 30, | |
|---|---|---|---|---|
| | **2015** | 2014 (Restated - note 15) | **2015** | 2014 (Restated - note 15) |
| | **$** | $ | **$** | **$** |
| Employee costs | **10,624** | 10,037 | **32,374** | 30,600 |
| Other operating expenses | **11,490** | 10,187 | **34,482** | 30,710 |
| Corporate office expenses | **2,755** | 2,459 | **8,577** | 8,237 |
| Depreciation and amortization | **6,696** | 6,641 | **19,786** | 19,241 |
| Share-based compensation expense | **312** | 489 | **1,024** | 1,399 |
| Loss on disposal of property and equipment | **443** | — | **443** | 2 |
| **Total** | **32,320** | 29,813 | **96,686** | 90,189 |

## 13. Income Taxes

The total provision for income taxes varies from the amounts that would be computed by applying the statutory income tax rate of approximately 26.5% (2014 - 26.5%) to income taxes due to permanent differences. Permanent differences in the three and nine month periods ended September 30, 2015 and 2014 arose as a result of impairment charges and contingent consideration as these amounts have been recorded for accounting purposes but will never be realized as a deduction for income tax purposes.

Deferred income tax assets and liabilities are presented based on a net basis by legal entity on the consolidated statements of financial position.

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable income is probable. As at September 30, 2015, the Company had losses amounting to $83,733 (December 31, 2014 - $91,223) that can be carried forward against future taxable income, a portion of which resulted in unrecognized deferred tax assets of $21,078 (December 31, 2014 - $19,572) based upon the projections for future taxable income over the periods in which the losses should be available.

(in thousands of Canadian dollars)

## 14. Segmented Information

The Company has organized its operations based on the various products and services that it offers. The consolidated operations of the Company comprise three reportable operating segments, referred to as: (i) Physiotherapy, Rehabilitation and Assessments; ii) Specialty Pharmacy; and (iii) Surgical and Medical Centres.

Certain general and administrative corporate costs have been allocated to the reportable segments based on the extent of corporate management's involvement in the reportable segments during the period. Those costs that generally represent the costs associated with a publicly-listed entity, as well as legal fees, advisory fees and acquisition-related services provided by independent third parties have been reported in the Corporate reportable segment.

**As at and for the three month periods ended September 30, 2015**

| | Physiotherapy, Rehabilitation & Assessments $ | Specialty Pharmacy $ | Surgical & Medical Centres $ | Corporate $ | Total $ |
|---|---|---|---|---|---|
| Revenue | 45,804 | 31,982 | 9,342 | — | **87,128** |
| Depreciation and amortization | 670 | 1,569 | 834 | 3,623 | **6,696** |
| Income (loss) before interest expense, income taxes and discontinued operations | 4,596 | 3,102 | (214) | (7,906) | **(422)** |
| Interest expense | — | — | — | 8,519 | **8,519** |

**As at and for the nine month periods ended September 30, 2015**

| | Physiotherapy, Rehabilitation & Assessments $ | Specialty Pharmacy $ | Surgical & Medical Centres $ | Corporate $ | Total $ |
|---|---|---|---|---|---|
| Revenue | 142,634 | 90,206 | 28,519 | — | **261,359** |
| Depreciation and amortization | 1,924 | 4,561 | 2,449 | 10,852 | **19,786** |
| Income (loss) before interest expense, income taxes and discontinued operations | 15,842 | 6,321 | (307) | (22,777) | **(921)** |
| Interest expense | — | — | — | 25,828 | **25,828** |

[9] Included in the income before interest expense, income taxes and discontinued operations for the Corporate segment is $233 of a non-cash loss (2014 - $647 loss)from the net decrease in the fair value of the contingent consideration liability for the year, $6,295 (2014 - $1,691) in transaction and restructuring costs and $1,499 of non-cash gains (2014 - $1,301 loss) from the change in fair value of derivative financial instruments.

**As at and for the three month periods ended September 30, 2014 (restated - note 15)**

| | Physiotherapy, Rehabilitation & Assessments $ | Specialty Pharmacy $ | Surgical & Medical Centres $ | Corporate $ | Total $ |
|---|---|---|---|---|---|
| Revenue | 42,314 | 23,978 | 8,996 | — | **75,288** |
| Depreciation and amortization | 551 | 1,486 | 982 | 3,622 | **6,641** |
| Income (loss) before interest expense, income taxes and discontinued operations | 4,856 | 1,812 | (329) | (7,104) | **(765)** |
| Interest expense | — | — | — | 8,362 | **8,362** |

(in thousands of Canadian dollars)

## 14. Segmented Information - continued

| As at and for the nine month periods ended September 30, 2014 (restated - note 15) | | | | | |
|---|---|---|---|---|---|
| | **Physiotherapy, Rehabilitation & Assessments $** | **Specialty Pharmacy $** | **Surgical & Medical Centres $** | **Corporate $** | **Total $** |
| Revenue | 131,119 | 70,997 | 26,720 | — | **228,836** |
| Depreciation and amortization | 1,708 | 4,434 | 2,306 | 10,793 | **19,241** |
| Income (loss) before interest expense, income taxes and discontinued operations | 16,422 | 4,448 | 160 | (24,278) | **(3,248)** |
| Interest expense | — | — | — | 24,802 | **24,802** |

(in thousands of Canadian dollars)

## 15. Discontinued Operations

The results from discontinued operations below have been segmented to align with the operating segments of the Company. The composition of discontinued operations segments is as follows:

- **Physiotherapy, Rehabilitation and Assessments** discontinued operations includes the results of CAR and Active for the comparative periods.
- **Specialty Pharmacy** discontinued operations includes the Methadone Pharmacy.
- **Surgical and Medical Centres** discontinued operations includes Sarnia, Sleep Clinic and Windsor Endoscopy Center.

The cash flows from discontinued operations for the three and nine month periods ended September 30, 2015 and 2014 are as follows:

| | **For the three month periods ended September 30,** | | **For the nine month periods ended September 30,** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$** | $ | **$** | $ |
| Operating cash flows | **60** | (7,037) | **(95)** | (380) |
| Investing cash flows | **457** | (153) | **431** | (1,088) |
| Financing cash flows | — | 1 | **—** | 21 |
| **Total Cash Flows** | **517** | (7,189) | **336** | (1,447) |

The results from discontinued operations for the three and nine month periods ended September 30, 2015 and 2014 are as follows:

**For the three month period ended September 30, 2015**

| | **Physiotherapy, Rehabilitation & Assessments $** | **Specialty Pharmacy $** | **Surgical & Medical Centres $** | **Retail and HME $** | **Total $** |
|---|---|---|---|---|---|
| Revenues | — | — | 13 | — | **13** |
| Expenses | — | — | (93) | — | **(93)** |
| **Income before income taxes from discontinued operations** | — | — | 106 | — | **106** |
| Income tax expense | — | — | — | — | **—** |
| **Income from discontinued operations** | — | — | 106 | — | **106** |

(in thousands of Canadian dollars)

## 15. Discontinued Operations - continued

**For the nine month period ended September 30, 2015**

| | Physiotherapy, Rehabilitation & Assessments $ | Specialty Pharmacy $ | Surgical & Medical Centres $ | Retail and HME $ | Total $ |
|---|---|---|---|---|---|
| Revenues | — | — | 381 | — | **381** |
| Expenses | — | 57 | 732 | — | **789** |
| Depreciation and amortization | — | — | 52 | — | **52** |
| **Loss before income taxes from discontinued operations** | — | (57) | (403) | — | **(460)** |
| Income tax expense (recovery) | — | 34 | (11) | — | **23** |
| **Loss from discontinued operations** | — | (91) | (392) | — | **(483)** |

**For the three month period ended September 30, 2014**

| | Physiotherapy, Rehabilitation & Assessments $ | Specialty Pharmacy $ | Surgical & Medical Centres $ | Retail and HME $ | Total $ |
|---|---|---|---|---|---|
| Revenues | — | 3,170 | 341 | 19,798 | **23,309** |
| Expenses | 5 | 2,624 | 361 | 19,972 | **22,962** |
| Depreciation and amortization | — | — | 52 | — | **52** |
| (Gain) loss on sale of businesses | 58 | (11,822) | — | 4,248 | **(7,516)** |
| **Income (loss) before income taxes from discontinued operations** | (63) | 12,368 | (72) | (4,422) | **7,811** |
| Income tax expense (recovery) | (75) | 916 | (6) | (2,135) | **(1,300)** |
| **Income (loss) from discontinued operations** | 12 | 11,452 | (66) | (2,287) | **9,111** |

**For the nine month periods ended September 30, 2014**

| | Physiotherapy, Rehabilitation & Assessments $ | Specialty Pharmacy $ | Surgical & Medical Centres $ | Retail and HME $ | Total $ |
|---|---|---|---|---|---|
| Revenues | 8,770 | 12,313 | 1,404 | 71,206 | **93,693** |
| Expenses | 8,155 | 10,514 | 1,942 | 74,399 | **95,010** |
| Depreciation and amortization | 153 | 532 | 284 | 3,021 | **3,990** |
| (Gain) loss on sale of businesses | 2,853 | (11,822) | — | 4,248 | **(4,721)** |
| Impairments | 13,835 | — | 2,659 | 5,423 | **21,917** |
| **Income (loss) before income taxes from discontinued operations** | (16,226) | 13,089 | (3,481) | (15,885) | **(22,503)** |
| Income tax expense (recovery) | (726) | 1,016 | 1,654 | (2,762) | **(818)** |
| **Income (loss) from discontinued operations** | (15,500) | 12,073 | (5,135) | (13,123) | **(21,685)** |

There are no amounts included in the net loss from discontinued operations that are attributable to non-controlling interests for the nine month periods ended September 30, 2015 and 2014.

(in thousands of Canadian dollars)

## 16. Contingencies

From time to time the Company is involved in litigation, investigations or proceedings related to claims arising out of its operations in the ordinary course of business. The Company believes that these claims and lawsuits in the aggregate, when settled are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

## 17. Supplementary Disclosure to the Consolidated Statements of Cash Flows

The net change in non-cash working capital comprises the following:

| | **For the three month periods ended September 30,** | | **For the nine month periods ended September 30,** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$** | $ | **$** | $ |
| Trade and other receivables | **3,329** | 286 | **1,944** | (3,052) |
| Inventories | **785** | (1,007) | **881** | (498) |
| Prepaid expenses | **(107)** | (637) | **(323)** | (799) |
| Trade payables and other amounts | **(2,817)** | (2,244) | **2,704** | 4,349 |
| **Total** | **1,190** | (3,602) | **5,206** | — |