Centric Health

Your Care. Our Focus.

Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015

(in thousands of Canadian dollars)

Dated: November 8, 2016

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

	September 30, 2016	December 31, 2015
	$	$
Assets		
Current assets		
Cash and cash equivalents	**4,780**	14,881
Restricted cash (notes 2 and 16)	**3,000**	233,896
Trade and other receivables (note 9)	**23,918**	15,844
Inventories	**6,444**	6,204
Prepaid expenses and other current assets	**1,187**	910
	39,329	271,735
Non-current assets		
Restricted cash (notes 2 and 16)	**—**	3,000
Property and equipment (note 4)	**11,020**	11,692
Goodwill and intangible assets (note 4)	**83,028**	89,435
Deferred income tax assets (note 5)	**6,913**	1,719
Total assets	**140,290**	377,581
Liabilities		
Current liabilities		
Trade payables and other amounts (note 6)	**21,904**	35,169
Current portion of borrowings (note 7)	**18,533**	54,481
Current portion of contingent consideration (note 3)	**2,129**	3,936
Current portion of finance lease liabilities	**87**	309
	42,653	93,895
Non-current liabilities		
Borrowings (note 7)	**67,437**	214,818
Preferred partnership units (note 8)	**—**	37,592
Contingent consideration (note 3)	**6,882**	6,178
Other deferred amounts (note 9)	**16,802**	—
Deferred income tax liabilities (note 5)	**5,071**	8,838
Deferred lease incentives	**689**	904
Finance lease liabilities	**430**	345
Derivative liability portion of convertible borrowings (note 7)	**26**	66
Total liabilities	**139,990**	362,636
Equity		
Share capital (note 10)	**110,243**	107,900
Warrants	**2,535**	3,787
Contributed surplus	**23,417**	16,662
Equity portion of convertible borrowings	**2,905**	7,119
Deficit	**(139,238)**	(121,186)
Equity attributable to shareholders of Centric Health Corporation	**(138)**	14,282
Non-controlling interests	**438**	663
Total equity	**300**	14,945
Total liabilities and equity	**140,290**	377,581

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,	
	2016	2015 (Restated - note 16)	**2016**	2015 (Restated - note 16)
	$	$	**$**	$
Revenue	**42,420**	41,891	**126,659**	120,515
Cost of healthcare services and supplies	**26,361**	26,171	**79,457**	74,996
General and administrative expenses (note 13)	**15,046**	16,090	**45,688**	48,009
Transaction, restructuring and other costs (note 3)	**1,231**	1,050	**5,709**	5,538
Loss from operations	**(218)**	(1,420)	**(4,195)**	(8,028)
Interest expense (note 14)	**3,328**	8,519	**15,191**	25,828
Change in fair value of derivative financial instruments (note 7)	**26**	68	**(40)**	(1,499)
Change in fair value of contingent consideration liability (note 3)	**897**	182	**5,407**	233
Loss before income taxes	**(4,469)**	(10,189)	**(24,753)**	(32,590)
Income tax recovery (note 5)	**(7,878)**	(698)	**(7,730)**	(1,619)
Net income (loss) from continuing operations	**3,409**	(9,491)	**(17,023)**	(30,971)
Income (loss) from discontinued operations (note 16)	**—**	4,530	**(1,037)**	6,619
Net income (loss)	**3,409**	(4,961)	**(18,060)**	(24,352)
Other comprehensive income:				
Amortization of deferred gain on interest rate swaps	**—**	—	**—**	(8)
Comprehensive income (loss)	**3,409**	(4,961)	**(18,060)**	(24,344)
Net income (loss) attributable to:				
Shareholders of Centric Health Corporation	**3,325**	(4,999)	**(18,052)**	(24,309)
Non-controlling interests	**84**	38	**(8)**	(43)
Comprehensive income (loss) attributable to:				
Shareholders of Centric Health Corporation	**3,325**	(4,999)	**(18,052)**	(24,301)
Non-controlling interests	**84**	38	**(8)**	(43)
Basic and diluted earnings per common share attributable to shareholders of Centric Health Corporation:				
From continuing operations	**$0.02**	($0.06)	**($0.10)**	($0.20)
From discontinued operations	**$0.00**	$0.03	**($0.01)**	$0.04
From earnings for the period	**$0.02**	$(0.03)	**($0.11)**	($0.15)
Weighted average number of common shares outstanding (in thousands) (note 10)				
Basic and diluted	**163,806**	160,684	**162,860**	158,468

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, 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 RSUs vested and issued	961,672	374	—	(374)	—	—	—	—	—	—
Shares Released from escrow or treasury and warrants issued related to contingent consideration	327,766	79	—	—	—	—	—	79	—	79
Settlement of interest rate swap	—	—	—	—	—	(8)	—	(8)	—	(8)
Deferred compensation expense	300,000	326	70	578	—	—	—	974	—	974
Payment of non-controlling interests	—	—	—	—	—	—	—	—	(285)	(285)
Net loss	—	—	—	—	—	—	(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)**
Balance at December 31, 2015	**160,882,600**	**107,900**	**3,787**	**16,662**	**7,119**	**—**	**(121,186)**	**14,282**	**663**	**14,945**
Options and RSUs vested and issued	1,076,667	433	—	(433)	—	—	—	—	—	—
Shares released from escrow or treasury and warrants issued related to contingent consideration	4,553,260	1,610	6	—	—	—	—	1,616	—	1,616
Extension of convertible debt (note 7)	—	—	(1,313)	6,991	(4,214)	—	—	1,464	—	1,464
Deferred compensation expense	300,000	300	55	197	—	—	—	552	—	552
Payment of non-controlling interests	—	—	—	—	—	—	—	—	(217)	(217)
Net loss for the year	—	—	—	—	—	—	(18,052)	(18,052)	(8)	(18,060)
Balance at September 30, 2016	**166,812,527**	**110,243**	**2,535**	**23,417**	**2,905**	**—**	**(139,238)**	**(138)**	**438**	**300**

[1] Excludes 201,025 of contingent shares held in escrow and restricted shares as at September 30, 2016 (note 10).

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

The accompanying notes are an integral part of these unaudited condensed interim 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,	
	2016	2015	**2016**	2015
Cash provided by (used in):	**$**	$	**$**	$
Operating activities				
Net income (loss) for the period	**3,409**	(4,961)	**(18,060)**	(24,352)
Adjustments for:				
Interest expense (note 14)	**3,328**	8,519	**15,191**	25,828
Change in fair value of derivative financial instruments (note 7)	**26**	68	**(40)**	(1,499)
Loss (gain) on disposal of property, equipment and intangible assets	**—**	302	**(1)**	671
Depreciation of property and equipment (note 4)	**699**	1,434	**2,069**	4,084
Amortization of finite-life intangible assets (note 4)	**2,410**	5,262	**7,178**	15,754
Amortization of lease incentives and lease inducements	**(51)**	(246)	**(215)**	(213)
Income taxes paid	**(94)**	(858)	**(598)**	(2,343)
Income tax recovery	**(7,878)**	(3,874)	**(7,730)**	(2,857)
Share-based compensation expense (note 13)	**128**	312	**556**	1,024
Transaction costs settled in shares	**—**	—	**—**	500
Change in the fair value of contingent consideration liability (note 3)	**897**	182	**5,407**	233
Supply agreement arrangements, net of amortization (note 9)	**9,492**	—	**9,492**	—
Loss on sale of business (note 16)	**—**	—	**1,037**	—
Transaction costs on sale of business (note 19)	**—**		**—**	—
Net change in non-cash working capital items (note 18)	**(1,708)**	1,190	**(15,568)**	5,206
Cash provided by (used in) operating activities	**10,658**	7,330	**(1,282)**	22,036
Investing activities				
Proceeds from restricted cash used for acquisitions (note 2)	**—**	—	**—**	26,000
Proceeds from restricted cash used for debt repayment (note 2)	**—**	—	**224,149**	—
Proceeds on disposal of property, equipment and intangible assets	**4**	500	**16**	500
Acquisition of businesses (note 3)	**—**	680	**(590)**	(25,320)
Purchase of intangible assets (note 4)	**(68)**	(54)	**(169)**	(366)
Purchase of property and equipment (note 4)	**(736)**	(1,189)	**(1,259)**	(4,057)
Payment of contingent consideration (note 3)	**(5,033)**	(45)	**(5,033)**	(45)
Cash transferred as part of acquisitions (note 3)	**—**	—	**21**	1,606
Cash provided by (used in) investing activities	**(5,833)**	(108)	**217,135**	(1,682)
Financing activities				
Interest paid	**(110)**	(1,256)	**(8,945)**	(14,115)
Repayment of borrowings (note 7)	**—**	—	**(208,581)**	(9,842)
Restricted cash released from restrictions following the repurchase of Notes (note 2)	**—**	—	**10,023**	—
Withdrawal (repayment) of Revolving Facility	**(4,000)**	(6,000)	**(18,000)**	6,000
Repayment of finance leases	**(81)**	(81)	**(234)**	(171)
Payments to non-controlling interests	**(130)**	(157)	**(217)**	(285)
Cash used in financing activities	**(4,321)**	(7,494)	**(225,954)**	(18,413)
Increase (decrease) in cash and cash equivalents	**504**	(272)	**(10,101)**	1,941
Cash and cash equivalents, beginning of period	**4,276**	2,450	**14,881**	237
Cash and cash equivalents, end of period	**4,780**	2,178	**4,780**	2,178

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements. Refer to note 16 for cash flows related to discontinued operations.

1. Significant Accounting Policies

Centric Health Corporation, together with its subsidiaries (collectively "Centric Health" or "the Company"), 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 in accordance with IAS 34 *Interim Financial Reporting* as outlined by International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"). 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, 2015.

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, 2015. 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 8, 2016.

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 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 (the "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.

On July 27, 2015, the Company announced that its Board had initiated a process to consider and evaluate strategic alternatives available to the Company following unsolicited interest in certain businesses of the Company. The Company previously disclosed that it was exploring opportunities to maximize shareholder value which included additional divestitures of existing businesses. In light of these circumstances, the Company established a Special Committee composed of directors who are independent of management to oversee the strategic review process.

On December 31, 2015, the Company completed the sale of substantially all of the businesses within its Physiotherapy, Rehabilitation and Medical Assessments segment (the "Sale Transaction") (note 16) to Audax Private Equity for cash consideration on closing of approximately $245,000 (subject to working capital adjustments, refer to note 16), of which $3,000 will be held in escrow up to June 30, 2017 to support certain representations and warranties the Company made as part of the sale agreement. In addition to the cash received, the purchase consideration also included up to $5,000 in contingent consideration. The Company has used a substantial portion of the net proceeds received on closing of approximately $234,000 to repay debt in accordance with the terms of the various debt agreements currently in place.

On February 22, 2016, the Company paid $169,072 to the holders of the second lien senior secured notes (the "Notes") with a par value of $164,264, which included $4,808 of accrued interest, leaving Notes with a principal balance of $25,894 remaining. In conjunction with the payment of the Notes, the Company amended the trust indenture. The amendments provide the Company, subject to certain limitations, with additional flexibility to, among other things, repurchase, redeem or otherwise acquire for value or retire its outstanding securities, make interest and principal payments on subordinated debt, incur additional indebtedness, alter the size of the Revolving Facility, make distributions to shareholders, and make additional acquisitions and dispositions.

On March 4, 2016, using $30,000 of the net proceeds from the Sale Transaction and a promissory note, Lifemark Health Limited Partnership redeemed all of its issued and outstanding remaining preferred partnership units, all of which were held by Alaris Income Growth Fund Partnership (“Alaris”), for the full repurchase price of approximately $38,397. Immediately upon redemption of the preferred partnership units and payment of $30,000 in cash, Alaris loaned the Company approximately $8,397 as a promissory note on substantially the same economic terms as applied to the equivalent value of preferred partnership units, which the Company repaid in full on March 23, 2016.

2. Capital Management, Liquidity Risk and Financing - continued

On March 23, 2016, the Company amended its 5.5% April 2016 Convertible Noteholders ("April 2016 CDs") on the following terms: (i) the maturity date would be extended from April 30, 2016 to July 31, 2017, (ii) the interest rate payable under the April 2016 CDs would be increased from 5.5% to 6.5% from and including May 1, 2016 to July 31, 2017 and (iii) the conversion price would be decreased from $0.9229 per share to $0.52 per share from and including May 1, 2016 to July 31, 2017 (collectively, the "Amended 2016 Note Terms"). The holders of $9,080 principal amount agreed to accept the Amended 2016 Note Terms. On May 2, 2016, the Company paid $121 cash consent fee (representing 1.333% of the principal amount) to the holders of the April CDs who accepted the Amended 2016 Note Terms, and the noteholders holding the remaining April 2016 CDs for $5,920 principal outstanding were repaid at par plus accrued and unpaid interest of $163.

On March 22, 2016, the lenders of the Revolving Facility amended the credit agreement, which was scheduled to mature on June 9, 2016, for a two year extension. The extended Revolving Facility will now mature on March 22, 2018 and will bear interest on a sliding scale from prime plus 1.25% to prime plus 2.75% for principal borrowed and a range of 0.56% to 0.94% for standby fees for amounts not borrowed. The Revolving Facility's capacity will remain at $35,000, with an additional $15,000 accordion available subject to lender approval.

On September 19, 2016, the Company provided holders of its 6.00% Unsecured Subordinated Notes scheduled to mature on December 22, 2016 ("the December 2016 CDs") a notice of redemption pursuant to which the Company will redeem the entire outstanding principal amount of $10,808 on November 8, 2016. The notes will be redeemed on the redemption date at par, plus accrued and unpaid interest of $232 from June 30, 2016 through to but excluding the redemption date. The full redemption price and interest owing on the notes will be satisfied in cash.

Following the completion of the Sale Transaction, the Company has made substantial progress on strengthening its balance sheet, including the repayment of a significant portion of the Notes, preferred partnership units, April 2016 CDs and December 2016 CDs. Along with future organic growth and ongoing operational and cost containment initiatives, the Company expects the benefits from the integration of recent acquisitions, additional liquidity improvements from $8,000 in consideration receivable from the Sale Transaction, approximately $7,000 of further supply agreement payments, as well as the renewed Revolving Facility, will provide sufficient cash flow to meet its obligations as they come due. The Company is currently reviewing strategic alternatives for the repayment or refinancing of the debt obligations that mature in 2017 and 2018.

The Company anticipates it will be in compliance with the new covenants in its Revolving Facility throughout 2016 and 2017; however, there can be no assurance that the Company will be successful in achieving the results targeted in its operating plan for the remainder of 2016 and 2017.

(in thousands of Canadian dollars, except for share amounts)

2. Capital Management, Liquidity Risk and Financing - continued

The continuity of restricted cash is as follows:

	$
Restricted cash balance on December 31, 2014	36,302
Purchase of Pharmacare	(26,000)
Restricted cash applied to capital expenditures and transaction costs	(10,059)
Return of temporary repayment from Revolving Facility	10,000
Repayment of second lien senior secured notes	(10,000)
Interest earned	71
Remaining cash applied to Revolving Facility	(309)
Divestiture of the Sale Transaction, net of estimated transaction costs	236,891
Restricted cash balance as of December 31, 2015	**236,896**
Repayment of second lien senior secured notes and accrued interest	(169,072)
Repayment of Alaris principal	(38,397)
Repayment of borrowings on the Revolving Facility	(16,680)
Interest earned	276
Remaining proceeds released from restrictions following the repurchase of Notes	(10,023)
Restricted cash balance as of September 30, 2016	**3,000**

(in thousands of Canadian dollars, except for share amounts)

3. Business Combinations

Pharmacy West Ltd. ("Pharmacy West")

During the second quarter of 2016, the Company acquired 100% of the shares of Pharmacy West. Total consideration included cash of $590 and contingent consideration of $138, which represented fair value at the date of acquisition. The contingent consideration is based on achieving certain EBITDA targets up to December 31, 2017.

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. As at September 30, 2016, the Company recognized Goodwill of $603 related to the Pharmacy West acquisition.

Pharmacare

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 performance 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. During the third quarter of 2016, the terms of the contingent consideration were amended as described further below.

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

(in thousands of Canadian dollars, except for share amounts)

3. Business Combinations - continued

During the fourth quarter of 2015 and the first quarter of 2016, the Company recorded certain adjustments to the purchase price allocation to identify and value intangible assets and associated deferred taxes included as part of the acquisition. The Company has finalized the purchase price allocation, allocated as follows:

Fair value of net assets acquired	December 31, 2015	2016 Adjustments	Final
Other current assets	3,248	—	3,248
Property and equipment	2,522	—	2,522
Goodwill	14,737	(60)	14,677
Intangibles assets	24,310	60	24,370
Less: Deferred tax liabilities	(5,227)	—	(5,227)
Less: Other liabilities assumed	(2,144)	—	(2,144)
Total	**37,446**	**—**	**37,446**

In the third quarter of 2015, the Company received $832 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 were determined on a provisional basis at the time of acquisition. The goodwill is attributable to the expected synergies with existing businesses and the profitability of the acquired business.

Transaction, restructuring and other costs

Transaction and restructuring costs, including legal, consulting and due diligence fees directly related to business combinations or business restructuring, as well as severance costs and start-up costs for new initiatives, 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 corporate reorganization and other staffing reductions. Included in transaction costs for 2015 are advisory fees of $450 in transaction-related services provided by Global Healthcare Investments and Solutions, Inc. ("GHIS"), a related party. The service agreement expired in June 2015 and was not renewed.

Transaction, restructuring and other costs for the three and nine month periods ended September 30, 2016 and 2015 consist of the following:

	For the three month periods ended September 30,		For the nine month periods ended September 30,	
	2016	2015 (Restated - note 16)	**2016**	2015 (Restated - note 16)
	$	$	**$**	$
Transaction costs	**451**	152	**566**	2,415
Start-up costs	**—**	10	**—**	71
Restructuring and other costs	**780**	888	**5,143**	3,052
Total	**1,231**	1,050	**5,709**	5,538

(in thousands of Canadian dollars, except for share amounts)

3. Business Combinations - continued

At September 30, 2016, the Company had accrued liabilities from continuing operations related to severance of $607 (December 31, 2015 - $1,443) included in trade and other payables consisting of the following:

	Severance $
Balance at December 31, 2015	1,443
Additions	550
Payments	(1,173)
Reversals	(213)
Balance at September 30, 2016	**607**

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, 2015	1,986	2,263	5,532	333	**10,114**
Fair Value at date of acquisition	—	—	—	138	**138**
Change in fair value during the period	196	153	4,099	62	**4,510**
Contingent consideration settled in shares	(253)	—	—	—	**(253)**
Contingent consideration settled in warrants	(6)	—	—	—	**(6)**
Balance at June 30, 2016	**1,923**	**2,416**	**9,631**	**533**	**14,503**
Change in fair value during the period	(160)	(383)	1,542	(102)	**897**
Contingent consideration settled in shares	—	—	(1,356)	—	**(1,356)**
Contingent consideration settled in cash	—	(2,033)	(3,000)	—	**(5,033)**
Balance at September 30, 2016	**1,763**	**—**	**6,817**	**431**	**9,011**
Less: current portion	**1,763**	**—**	**—**	**366**	**2,129**
Non-current portion at September 30, 2016	**—**	**—**	**6,817**	**65**	**6,882**

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 became payable based on the Company's share price after the Company released results for the second quarter of 2016. On August 25, 2016, the Company paid $2,033 in cash to settle the liability.

3. Business Combinations - continued

In connection with the December 2013 acquisition of SmartShape, the Company recorded a contingent consideration liability in the amount of $987, which represented its fair value at the date of acquisition. The valuation method was based on the the share price of the Company's common shares on December 2, 2013 ($0.36 per share), a risk adjusted discount rate of 9.5% and the Black Scholes model for the valuation of warrants. The valuation of the liability is dependent on performance targets based on the number of procedures performed over a two year earn-out period. On December 2, 2015, the earn-out period was completed. On February 9, 2016, the Company released 1,075,000 escrowed shares to the vendors. The remaining liability is based on an amount that may be payable depending on the Company's share price as specified in the purchase agreement, discounted based on a risk adjusted discount rate of 9.5%. The expected range of the potential undiscounted amounts payable remaining is between $nil and $2,200.

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 represented its fair value at the date of acquisition based on specific performance targets, the share price of the Company's common shares on March 2, 2015 ($0.36 per share) and a risk adjusted discount rate of 9.5%. During the third quarter of 2016, certain terms and conditions related to the contingent consideration were amended primarily to initiate early the post-earn out phase of integration into the Company's national Specialty Pharmacy segment and incorporate recent and planned acquisitions. The amendments will also allow for a streamlined corporate infrastructure and achievement of greater synergies.

On September 1, 2016 and September 23, 2016, the Company paid $3,000 in cash and issued 3,478,260 shares, respectively, to the vendors as the first earn-out year settlement. The valuation of the remaining liability is now dependent on the Western region reaching 12,000 beds under contract and successful completion of certain pipeline acquisitions. The amended terms have deferred all remaining payments until the completion of the third earn out year ending December 31, 2017. The remaining liability includes up to $5,163 in performance cash, 4,782,609 common shares of the Company and the issuance of up to 4,000,000 warrants, which 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. As at September 30, 2016, the Company estimated the probability of meeting the targets for the remaining periods to be 100%, resulting in a fair value of the contingent consideration of $6,817 as of September 30, 2016. The expected range of the potential undiscounted amounts payable remaining is between $nil and $8,000.

(in thousands of Canadian dollars, except for share amounts)

4. Goodwill, Intangible Assets and Property and Equipment

	Goodwill $	Intangible Assets $	Goodwill and Intangible Assets $	Property and Equipment $
Year ended December 31, 2015				
Cost				
Balance at December 31, 2014	199,095	136,948	336,043	36,794
Acquisition of business	41,321	500	41,821	3,285
Additions	—	452	452	5,423
Disposals	—	(382)	(382)	(1,913)
Disposals from sale of business	(154,902)	(82,069)	(236,971)	(20,768)
Purchase price allocation adjustment	(22,437)	24,270	1,833	—
Balance at December 31, 2015	63,077	79,719	142,796	22,821
Accumulated amortization and impairment losses				
Balance at December 31, 2014	(55,481)	(84,061)	(139,542)	(17,773)
Amortization charge	—	(22,386)	(22,386)	(5,369)
Impairment	(1,678)	(322)	(2,000)	—
Disposals	—	—	—	990
Disposals from sale of business	50,000	60,567	110,567	11,023
Balance at December 31, 2015	(7,159)	(46,202)	(53,361)	(11,129)
Period ended September 30, 2016				
Cost				
Balance at December 31, 2015	63,077	79,719	142,796	22,821
Additions	—	169	169	1,259
Acquisition of business	599	—	599	162
Disposals	—	—	—	(18)
Purchase price allocation adjustment	(57)	60	3	(9)
Balance at September 30, 2016	**63,619**	**79,948**	**143,567**	**24,215**
Accumulated amortization and impairment losses				
Balance at December 31, 2015	(7,159)	(46,202)	(53,361)	(11,129)
Amortization charge	—	(7,178)	(7,178)	(2,069)
Disposals		—	—	3
Balance at September 30, 2016	(7,159)	**(53,380)**	**(60,539)**	**(13,195)**
Net carrying value				
As at December 31, 2015	55,918	33,517	89,435	11,692
As at September 30, 2016	**56,460**	**26,568**	**83,028**	**11,020**

Included in the net carrying value of property and equipment are assets under finance leases of $430 (December 31, 2015 - $523). During the three and nine month periods ended September 30, 2016, additions of property and equipment acquired through finance leases were $97 (2015 - $119).

The Company has $1,084 of indefinite life intangible assets at September 30, 2016 (December 31, 2015 - $1,084).

(in thousands of Canadian dollars, except for share amounts)

5. 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 26.52% (2015 - 26.71%) to income taxes due to permanent differences. Permanent differences in the nine month periods ended September 30, 2016 and 2015 arose as a result of impairment charges, contingent consideration, share-based compensation and other expenses, 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 statement of financial position.

The Company's net deferred tax asset (liability) on the statement of financial position is as follows:

	September 30, 2016	December 31, 2015
	$	$
Deferred income tax asset	**6,913**	1,719
Deferred income tax liability	**5,071**	8,838
Net deferred income tax asset (liability)	**1,842**	(7,119)

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, 2016, the Company had losses amounting to $53,680 (December 31, 2015 - $63,198) that can be carried forward against future taxable income, a portion of which resulted in unrecognized deferred tax assets of $10,809 (December 31, 2015 - $15,843), based on the projections for future taxable income over the periods in which the losses should be available. During the 3 month period ended September 30, 2016, the Company recorded a deferred tax asset of $4,382, which represents the benefit from $16,532 of accumulated losses and other tax attributes that are expected to be utilized in 2016 arising from tax restructuring activities and the estimated taxable income resulting primarily from the supply agreement payments.

6. Trade Payables and Other Amounts

Trade payables and other amounts at September 30, 2016 and December 31, 2015 are comprised of the following:

	September 30, 2016	December 31, 2015
	$	$
Trade payables	**11,692**	21,769
Accrued liabilities	**8,304**	10,998
Deferred revenue	**1,199**	762
Amounts payable to related parties (note 12)	**102**	27
Restructuring costs (note 3)	**607**	1,613
Total	**21,904**	35,169

The change in trade payables and accrued liabilities is primarily due to the payment of approximately $6,500 of accrued transaction costs associated with the Sale Transaction, lower accrued interest as a result of debt repayment, and timing of working capital payments.

(in thousands of Canadian dollars, except for share amounts)

7. Borrowings

Borrowings consist of the following:

	September 30, 2016	December 31, 2015
	$	$
Second lien senior secured notes	**25,894**	190,158
Loan arrangement costs	**(251)**	(1,872)
Revolving Facility	**13,000**	31,000
Convertible debt	**47,388**	53,308
Unaccreted discount on convertible debt	**(4,042)**	(6,900)
Promissory notes (note 12)	**5,000**	5,000
Unaccreted discount on promissory notes	**(1,019)**	(1,395)
Total borrowings	**85,970**	269,299
Less current portion of borrowings:		
Revolving Facility	**—**	31,000
Convertible debt - directed share program and private placement net of unaccreted discount	**18,533**	23,481
Total current portion of borrowings	**18,533**	54,481
Total non-current portion of borrowings	**67,437**	214,818

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 Notes.

Second lien senior secured notes

On April 18, 2013, the Company completed a $200,000 public offering of the Notes which bear interest at 8.625% with the principal due on April 18, 2018. There are no principal repayments required for the Notes prior to maturity.

On June 25, 2015, the Company purchased an aggregate of 9,842 Notes for a total principal amount of $9,842 plus $158 in accrued and unpaid interest, representing a total payment of $10,000 for the Notes. As part of the repurchase, the Company recorded a loss on repurchase of the Notes for the year ended December 31, 2015 of $166.

On February 22, 2016, the Company purchased an aggregate of 164,264 Notes for a total principal amount of $164,264 plus $4,808 in accrued and unpaid interest, representing a total payment of $169,072 for the Notes.

In conjunction with the payment of the Notes on February 22, 2016, the Company amended the trust indenture, which removed the restrictions on the Company's ability to take on additional indebtedness based on its financial performance. The remaining Notes outstanding have a maturity date of April 18, 2018 and, beginning April 18, 2017, the Company has the option to redeem at par all or any part of the Notes.

The Notes contained 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 (December 31, 2015 - $nil).

(in thousands of Canadian dollars, except for share amounts)

7. Borrowings - continued

Revolving Facility

On March 22, 2016, the lenders of the Revolving Facility amended the credit agreement, which was scheduled to mature on June 9, 2016, for a two year extension. The extended Revolving Facility will now mature on March 22, 2018 and will bear interest on a sliding scale from prime plus 1.25% to prime plus 2.75% for principal borrowed and a range of 0.56% to 0.94% for standby fees for amounts not borrowed. The Revolving Facility's capacity will remain at $35,000, with an additional $15,000 accordion available subject to lender approval.

Convertible Debt

The Company's convertible debt as at September 30, 2016 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	9,080	July 31, 2017	6.50%
Public debt	27,500	October 31, 2017	6.75%
Total convertible debt	**47,388**		
Jamon promissory note (note 12)	5,000	April 30, 2018	6.00%
Total promissory notes	**5,000**		

On March 22, 2016, the Company made an offer to the 5.5% April 2016 Convertible Noteholders on the following terms: (i) the maturity date would be extended from April 30, 2016 to July 31, 2017, (ii) the interest rate payable under the Notes would be increased from 5.5% to 6.5% from and including May 1, 2016 to July 31, 2017 and (iii) the conversion price would be decreased from $0.9229 per share to $0.52 per share from and including May 1, 2016 to July 31, 2017 (collectively, the "Amended 2016 Note Terms").

As of April 11, 2016, holders of $9,080 principal amount have agreed to the extension offer. On May 2, 2016, the Company paid $121 cash consent fee (representing 1.333% of the principal amount) to the Noteholders who agreed to the Offer, and the Noteholders holding the remaining Convertible Notes for $5,920 principal outstanding were repaid at par plus accrued and unpaid interest of $163.

On September 19, 2016, the Company provided holders of its December 2016 CDs a notice of redemption pursuant to which the Company will redeem the entire outstanding principal amount of $10,808 on November 8, 2016. The notes will be redeemed on the redemption date at par, plus accrued and unpaid interest of $232 from June 30, 2016 through to but excluding the redemption date. The full redemption price and interest owing on the notes will be satisfied in cash.

(in thousands of Canadian dollars, except for share amounts)

7. Borrowings - continued

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

	September 30, 2016	December 31, 2015
	$	$
Unaccreted discount on convertible borrowings, beginning of period	**6,900**	12,139
Additional discounts from convertible debt	**1,464**	—
Accretion expense (note 14)	**(4,322)**	(5,239)
Unaccreted discount on convertible borrowings, end of period	**4,042**	6,900

The derivative liability portion of convertible borrowings is as follows:

	September 30, 2016	December 31, 2015
	$	**$**
Derivative liability portion of convertible borrowings, beginning of period	**66**	2,346
Change in fair value of derivative liability portion of convertible borrowings	**(40)**	(2,280)
Derivative liability portion of convertible borrowings, end of period	**26**	66

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, 2016 are as follows:

	Directed share program	**Public debt**	**Private placement redemption feature**
Expected volatility	44.14%	44.14%	44.14%
Risk-free interest rate	0.88%	0.86%	0.88%
Credit spread	9.03%	10.21%	9.68%

Fair Value of Derivative Financial Instruments

The change in fair value of derivative financial instruments for the three and nine month periods ended September 30, 2016 and 2015 are as follows:

	For the three month periods ended September 30,		**For the nine month periods ended September 30,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Change in fair value of interest rate swaps	**—**	—	**—**	(2)
Change in fair value of redemption feature	**—**	—	**—**	220
Change in fair value of derivative liability portion of convertible borrowings	**26**	68	**(40)**	(1,717)
Total	**26**	68	**(40)**	(1,499)

8. Preferred Partnership Units

On June 9, 2011, the Company assumed $65,500 of preferred partnership units issued by LifeMark Health Limited Partnership to Alaris Income Growth Fund Partnership, whereby the principal balance would grow by 4% annually from the third anniversary of June 9, 2014. Alaris would also be 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.

On April 18, 2013, the Company repaid $22,500 of the preferred partnership units and, on June 9, 2013, repaid an additional $7,500 of the preferred partnership units. The outstanding balance as of December 31, 2015 was $37,592.

On March 4, 2016, using $30,000 of the net proceeds from the Sale Transaction and a promissory note, the Company redeemed all of the remaining preferred partnership units, for the full repurchase price of $38,397. Immediately upon redemption of the preferred partnership units and payment of $30,000 in cash, Alaris loaned the Company approximately $8,397 as a promissory note on substantially the same economic terms as applied to the equivalent value of preferred partnership units.

On March 23, 2016, the Company repaid the full amount of the $8,397 promissory note together with accrued and unpaid interest of $48 to Alaris.

9. Other Deferred Amounts

On July 14, 2016, the Company entered into 10-year Business Development, Technology and Supply Agreements with Guardian and IDA Pharmacies (the "Agreements"). Under the terms of these Agreements, the Specialty Pharmacy business has committed to an exclusive supply agreement with Guardian and IDA Pharmacies. In addition, Guardian and IDA Pharmacies has committed $17,160 to support innovative programs and solutions, as well as organic and acquisitive growth strategies of the Company. As of September 30, 2016, the Company has received $9,850. The remaining $7,310 is included in Trade and Other Receivables and is anticipated to be received by July 2017.

The Company has classified $17,160 as other deferred amounts and will be amortizing the amounts into income on a straight-line basis over the term of the Agreements.

(in thousands of Canadian dollars, except for share amounts)

10. 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 (\$ thousands, except share amounts)	**September 30, 2016**		December 31, 2015	
Common shares	**Shares**	**Stated value \$**	Shares	Stated value \$
Balance, beginning of period	**160,882,600**	**107,900**	153,388,986	104,821
Issuance of shares	—	—	5,699,178	2,065
Issuance of shares as compensation	**300,000**	**300**	300,000	363
Shares released from escrow or issued from treasury for contingent consideration[1]	**4,553,260**	**1,610**	327,766	79
Stock options and restricted share units exercised	**1,076,667**	**433**	1,166,670	572
Balance, end of period	**166,812,527**	**110,243**	160,882,600	107,900

[1] In 2016, 3,478,260 common shares were issued for the settlement of Pharmacare earnouts and 1,075,000 common shares were released from escrow for the settlement of SmartShape earnouts; In 2015, 89,875 common shares were issued from treasury and 237,891 common shares released from escrow for the settlement of earnouts for three physiotherapy clinics.

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, 2016 are:

Type of common shares	
Freely tradeable	166,812,527
Escrowed and restricted	201,025
Total	**167,013,552**

Common shares related to contingent consideration held in escrow and restricted shares at September 30, 2016 are as follows:

Entity	**Escrowed and restricted shares**
London Scoping Centre	176,632
Other	24,393
Total	**201,025**

The continuity of restricted and escrowed shares for the three and nine month periods ended September 30, 2016 is as follows:

Escrowed and restricted shares	
Balance at beginning of the period	1,576,025
Released escrowed shares	(1,075,000)
Released restricted shares	(300,000)
Total	**201,025**

(in thousands of Canadian dollars, except for share amounts)

10. 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 were released to the CEO as freely tradeable over a four year period (refer to Note 12 for additional details). These shares were 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, as it relates 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.

In December 2015, the Company issued 204,998 common shares to certain members of management and employees related to restricted share units that have vested.

On February 9, 2016, the Company released 1,075,000 common shares from escrow related to the settlement of contingent consideration from the earnouts of the SmartShape acquisition.

In April 2016 and June 2016, the Company issued 291,669 and 202,673 common shares, respectively, to certain members of management and employees related to restricted share units that have vested.

In July 2016 and August 2016, the Company issued 568,992 and 13,333 common shares, respectively, to certain members of management and employees related to restricted share units that have vested.

On September 23, 2016, the Company issued 3,478,260 common shares related to the settlement of contingent consideration from the earnouts of the Pharmacare acquisition.

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 were $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%

(in thousands of Canadian dollars, except for share amounts)

10. Shareholders' Equity and Earnings per Share - continued

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

For the period ended	**September 30, 2016**		December 31, 2015	
Common share options	**Options**	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of period	**5,691,000**	**$1.43**	6,871,000	$1.45
Options granted	**150,000**	**$0.24**	1,000,000	$0.40
Options expired	**(2,716,000)**	**$1.81**	(475,000)	$0.70
Options canceled/forfeited	—	—	(1,705,000)	$1.11
Balance, end of period	**3,125,000**	**$1.05**	5,691,000	$1.43
Exercisable, end of period	**2,140,000**	**$1.36**	4,449,750	$1.70

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding as at September 30, 2016 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**
$0.24- $0.39	320,000	$0.32	3.3	85,000	$0.39
$0.40- $0.58	1,000,000	$0.40	3.5	250,000	$0.40
$0.59- $0.86	50,000	$0.76	0.9	50,000	$0.76
$0.87- $1.41	575,000	$0.95	0.5	575,000	$0.95
$1.42- $1.86	1,180,000	$1.86	0.1	1,180,000	$1.86
Balance, end of period	**3,125,000**	**$1.05**	**1.6**	**2,140,000**	**$1.36**

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.

On January 12, 2016, the Company issued 340,000 restricted share units in two tranches to management and employees which entitle the holders to 340,000 common shares of the Company. These restricted share units have been fair-valued based on the quoted market price on the effective date of the grants. The first tranche of 100,000 restricted share units, which have an effective date of March 3, 2015, were fair-valued based on a quoted market price of $0.375 per share. The second tranche of 240,000 restricted share units, which have an effective date of August 4, 2015, were fair-valued based on a quoted market price of $0.265 per share. The restricted share units vest over three years.

On August 11, 2016 the Company issued 210,000 restricted share units to directors of the Company which entitle the holders to 210,000 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 $0.280 per share and vest over three years.

(in thousands of Canadian dollars, except for share amounts)

10. Shareholders' Equity and Earnings per Share - continued

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

For the periods ended	**September 30, 2016**	December 31, 2015
Restricted share units	**Units**	Units
Balance, beginning of period	**2,642,488**	3,414,835
Restricted share units granted	**550,000**	835,000
Restricted share units released	**(1,076,667)**	(1,166,670)
Restricted share units forfeited	**(566,835)**	(440,677)
Balance, end of period	**1,548,986**	2,642,488

The weighted-average remaining contractual life of restricted share units outstanding as at September 30, 2016 is 1.80 years.

On February 9, 2016, the Company issued 96,000 warrants related to contingent consideration payments for the settlement of earnouts of SmartShape. The warrants expire two years from issuance and have a strike price of $0.37 per share.

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

For the periods ended	**September 30, 2016**		December 31, 2015	
Share purchase warrants	**Warrants**	**Weighted average exercise price**	Warrants	Weighted average exercise price
Balance, beginning of period	**7,595,507**	**$1.01**	12,694,427	$1.31
Warrants granted	**96,000**	**$0.37**	—	—
Warrants exercised	**—**	—	—	—
Warrants expired	**(4,832,227)**	**$0.89**	(5,098,920)	$1.76
Balance, end of period	**2,859,280**	**$1.20**	7,595,507	$1.01
Exercisable, end of period	**1,113,117**	**$0.47**	5,849,344	$0.82

The weighted-average remaining contractual life and weighted-average exercise price of warrants outstanding as at September 30, 2016 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**
$0.37 -$ 1.66	**2,859,280**	**$1.20**	**0.74**	**1,113,117**	**$0.47**

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. Loss per share is not adjusted for

(in thousands of Canadian dollars, except for share amounts)

10. Shareholders' Equity and Earnings per Share - continued

anti-dilutive instruments. The diluted 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. These instruments were anti-dilutive for the periods presented.

The following table illustrates the basic and diluted weighted average shares outstanding for the three and nine month periods ended September 30, 2016 and 2015:

	For the three month periods ended September 30,		**For the nine month periods ended September 30,**	
	2016	2015	**2016**	2015
Basic and diluted weighted average shares outstanding	**163,806,344**	160,684,489	**162,859,889**	158,468,091

(in thousands of Canadian dollars, except for share amounts)

11. Financial Instruments and Fair Value Measurements

At September 30, 2016, the Company's financial instruments consisted of cash and cash equivalents, restricted cash, trade and other receivables, loans receivable, trade and other payables, contingent consideration, bank indebtedness, finance lease liabilities, borrowings, 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, 2016 are as follows:

	Level 2 **$**	**Level 3** **$**	**Total** **$**
Contingent consideration	—	9,011	**9,011**
Derivative liability portion of convertible borrowings	—	26	**26**
Total	**—**	**9,037**	**9,037**

Recurring fair value measurements at December 31, 2015 are as follows:

	Level 2 **$**	**Level 3** **$**	**Total** **$**
Contingent consideration	—	10,114	**10,114**
Derivative liability portion of convertible borrowings	—	66	**66**
Total	**—**	**10,180**	**10,180**

There were no non-recurring fair value measurements at September 30, 2016. There were no financial instruments classified as level 1 at September 30, 2016 and 2015. There were no transfers between levels during the three and nine month periods ended September 30, 2016.

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 portion of convertible borrowings in note 7.

There were no changes in the valuation techniques used during the three and nine month periods ended September 30, 2016.

(in thousands of Canadian dollars, except for share amounts)

11. Financial Instruments and Fair Value Measurements - continued

The carrying value of financial assets and financial liabilities 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, 2016	December 31, 2015
	$	$
Financial assets measured at amortized cost		
Cash and cash equivalents	**4,780**	14,881
Restricted cash	**3,000**	233,896
Trade and other receivables (note 9)	**23,918**	15,844
Restricted cash (long-term)	**—**	3,000
Financial liabilities measured at amortized cost		
Trade payables and other amounts	**21,904**	35,169
Finance lease liability	**517**	654
Second lien senior secured notes	**25,643**	188,286
Convertible borrowings	**43,346**	46,408
Revolving facility	**13,000**	31,000
Related party convertible loan	**3,981**	3,605
Preferred partnership units	**—**	37,592

The fair value of the second lien senior secured notes at September 30, 2016 is $25,188 (December 31, 2015 - $173,877) and has a carrying value of $25,643 (December 31, 2015 - $188,286). 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 7.22%).

The fair value of the convertible borrowings, excluding Jamon, a related party, as at September 30, 2016 is $45,957 (December 31, 2015 - $39,288) and has a carrying value of $43,346 (December 31, 2015 - $46,408). 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 0.86% to 0.89% and credit spread of 9.03% to 10.21%).

The fair value of the convertible borrowings owed to Jamon, a related party, as at September 30, 2016 is estimated to be its current redemption value of $5,000 and has a carrying value of $3,981 (December 31, 2015 - $3,605).

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, except for share amounts)

11. Financial Instruments and Fair Value Measurements - continued

Trade and other receivables aging (net of provision) was as follows:

	September 30, 2016	December 31, 2015
	$	$
0 - 30 days	**21,748**	13,001
31-60 days	**820**	1,728
61-90 days	**369**	439
Over 90 days	**981**	676
	23,918	15,844

Included in trade and other receivables at September 30, 2016 are $5,010 (December 31, 2015 - $5,672) 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, 2016	December 31, 2015
	$	$
Provision, beginning of period	**118**	392
Amounts transferred to discontinued operations	**—**	(326)
Provision for receivables impairment	**61**	52
Receivables written off and unused amounts reversed	**—**	—
Provision, end of period	**179**	118

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, 2016:

	Total	2016	2017-2018	2019-2020	Thereafter
	$	$	$	$	$
Trade payables and other amounts	**21,904**	21,904	—	—	—
Second lien senior secured notes	**25,894**	—	25,894	—	—
Convertible borrowings	**47,388**	10,808	36,580	—	—
Related party convertible loan	**5,000**	—	5,000	—	—
Revolving Facility	**13,000**	—	13,000	—	—
Finance leases	**517**	87	430	—	—
Interest payments on borrowings	**8,240**	2,203	6,037		—
Operating leases	**7,496**	615	3,748	1,937	1,196
	129,439	**35,617**	**90,689**	**1,937**	**1,196**

11. 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 the prime rate.

As at September 30, 2016, a 1% change in the variable interest rates on the average balances for the nine month period ended September 30, 2016 would have resulted in an annualized change in interest expense of approximately $220 (December 31, 2015 - $230).

Currency Risk
Virtually all of the Company's transactions are denominated in Canadian dollars. At September 30, 2016 and December 31, 2015, the Company held no significant financial instruments that were denominated in a currency other than Canadian currency.

12. 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 by and related to the shareholders of GHIS including Jamon Investments LLC ("Jamon"), who own 59,551,287 shares or approximately 36% of the issued and outstanding common shares of the Company as at September 30, 2016. This ownership percentage disclosed assumes the issuance of 201,025 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 agreed not to renew the advisory agreement at the end of the second quarter of 2015. The representatives of GHIS continue to serve on the Board of Directors and various Committees of the Board of Directors. In addition, one of the Board members, who is also a director and committee member of some of the underlying businesses, is assisting management on an interim basis. Included in the results for the three and nine month periods ended September 30, 2016 are $40 and $90 (2015 - $10 and $10) of consulting fees related to this arrangement.

In 2015, the Company incurred advisory fees of $450 related to the service agreement up until the expiration in June 2015, and $39 in GHIS travel related expenses during the first half of 2015 ($nil in 2016). For the three and nine month periods ended September 30, 2016, the Company incurred $75 and $225 (2015 - $75 and $225) in interest on related party amounts.

Included in trade payables and other amounts at September 30, 2016 are $102 (2015 - $26) due to GHIS, of which $100 (2015 - $24) was related to interest payable to Jamon.

The Company holds a lease agreement for the use of a medical office as part of its Performance operations which is owned by a director of Performance. The Company's lease expense for this location for the three and nine month periods ended September 30, 2016 was $29 and $95 (2015 - $29 and $88).

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, 2016, the Company recorded an expense of $nil and $30 (2015 - $22 and $34) related to the fee owed to the corporation. Included in trade payables and other amounts at September 30, 2016 are $nil (2015 - $34) 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.

12. Related Party Transactions and Balances - continued

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 $101 (2015 - $136) has been included in trade and other receivables.

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. Based on the terms of the promissory note, the principal and accrued interest was forgiven by the Company on September 3, 2016 since the CEO remained an employee of the Company on the maturity date. 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.

On September 3, 2012, the Company issued 1,000,000 restricted shares to the Company's CEO, which vested over a four year period. These shares were treated as share-based compensation for accounting purposes, and an expense of $16 and $49 was recorded for the three and nine months period ended September 30, 2015, respectively ($nil in 2016). As of January 1, 2016, all of the restricted shares have been released (200,000 shares released on January 1, 2013 and 2014, and 300,000 shares released on January 1, 2015 and 2016).

(in thousands of Canadian dollars, except for share amounts)

13. 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,	
	2016	2015 (Restated - note 16)	**2016**	2015 (Restated - note 16)
	$	$	**$**	$
Employee costs	**4,134**	4,103	**12,949**	12,727
Other operating expenses	**6,124**	6,027	**18,093**	17,444
Corporate office expenses	**1,551**	2,753	**4,844**	8,577
Depreciation and amortization	**3,109**	2,776	**9,247**	8,118
Share-based compensation expense	**128**	312	**556**	1,024
Gain (loss) on disposal of property and equipment	**—**	119	**(1)**	119
Total	**15,046**	16,090	**45,688**	48,009

14. Interest Expense

Interest expense for the three and nine month periods ended September 30, 2016 and 2015 is comprised of the following:

	For the three month periods ended September 30,		For the nine month periods ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Interest on Term Loan, Revolving Facility and second lien senior secured notes	**859**	4,473	**4,643**	14,000
Amortization of loan arrangement fees	**39**	258	**1,621**	872
Interest on promissory note	**75**	76	**227**	224
Accretion of promissory note discounts	**132**	107	**376**	305
Interest on capital leases	**8**	10	**23**	26
Amortization of deferred gain on interest rate swap	**—**	—	**—**	(8)
Interest on convertible debt	**779**	839	**2,400**	2,488
Accretion on convertible debt	**1,436**	1,342	**4,322**	3,829
Accretion on preferred partnership units	**—**	345	**805**	996
Accretion on Loans Receivable	**—**	—	**—**	(22)
Gain on settlement of swaps	**—**	—	**—**	(14)
Loss on repayment of borrowings	**—**	—	**321**	166
Interest expense before distributions for preferred partnership units	**3,328**	7,450	**14,738**	22,862
Distributions for preferred partnership units	**—**	1,070	**730**	3,128
Total interest expense	**3,328**	8,520	**15,468**	25,990
Interest income	**—**	(1)	**(277)**	(162)
Net interest expense	**3,328**	8,519	**15,191**	25,828

(in thousands of Canadian dollars, except for share amounts)

15. Segmented Information

As a result of the Company completing the Sale Transaction on December 31, 2015, the Company has amended its reportable operating segments. The Company will now present two reportable operating segments based on the various products and services that it offers, rather than three reportable operating segments as was previously presented. The two reportable operating segments are as follows: (i) Specialty Pharmacy and (ii) Surgical and Medical Centres. The Company's Performance operations, which were included in the past as part of the Physiotherapy, Rehabilitation and Assessments segment, is now included as part of the Surgical and Medical Centres segment.

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 segment during the year. 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.

	For the three month period ended September 30, 2016			
	Specialty Pharmacy $	**Surgical and Medical Centres $**	**Corporate $**	**Total $**
Revenue	31,582	10,838	—	**42,420**
Depreciation and amortization	2,307	676	126	**3,109**
Income (loss) before interest expense, income taxes and discontinued operations	2,327	423	(3,891)	**(1,141)**
Interest expense	—	—	3,328	**3,328**

	For the nine month period ended September 30, 2016			
	Specialty Pharmacy $	**Surgical and Medical Centres $**	**Corporate $**	**Total $**
Revenue	93,696	32,963	—	**126,659**
Depreciation and amortization	6,828	2,040	379	**9,247**
Income (loss) before interest expense, income taxes and discontinued operations	5,291	1,536	(16,389)	**(9,562)**
Interest expense	—	—	15,191	**15,191**

[9] Included in the income before interest expense, income taxes and discontinued operations for the Corporate segment is a non-cash loss of $5,407 (2015 - $233) from the net change in the fair value of the contingent consideration liability for the year, $5,243 (2015 - $3,591) in transaction and restructuring costs and a non-cash gain of $40 (2015 - $1,499) from the change in fair value of derivative financial instruments.

(in thousands of Canadian dollars, except for share amounts)

15. Segmented Information

	For three month period ended September 30, 2015 (restated)			
	Specialty Pharmacy $	**Surgical and Medical Centres $**	**Corporate $**	**Total $**
Revenue	31,982	9,909	—	**41,891**
Depreciation and amortization	1,569	1,030	177	**2,776**
Income (loss) before interest expense, income taxes and discontinued operations	3,101	(315)	(4,456)	**(1,670)**
Interest expense	—	—	8,519	**8,519**

	For the nine month period ended September 30, 2015 (restated)			
	Specialty Pharmacy $	**Surgical and Medical Centres $**	**Corporate $**	**Total $**
Revenue	90,205	30,310	—	**120,515**
Depreciation and amortization	4,561	3,035	522	**8,118**
Income (loss) before interest expense, income taxes and discontinued operations	6,323	(638)	(12,447)	**(6,762)**
Interest expense	—	—	25,828	**25,828**

(in thousands of Canadian dollars, except for share amounts)

16. 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 Company's physiotherapy and rehabilitation operations, which are composed of its network of physiotherapy clinics, CAR, Active and the Company's Medical Assessments operations.
- **Specialty Pharmacy** discontinued operations includes the Methadone Pharmacies.
- **Surgical and Medical Centres** discontinued operations includes the Sarnia surgical centre, Sleep Clinic and Windsor Endoscopy Center.

2015 Sale Transaction

On December 31, 2015, the Company completed the sale of substantially all of the businesses within its Physiotherapy, Rehabilitation and Medical Assessments segment for cash consideration on closing of approximately $245,000, of which $3,000 will be held in escrow up to June 30, 2017 to support certain representations and warranties the Company made as part of the sale agreement. In addition to the cash received, the purchase consideration also includes a working capital adjustment of $337 and up to $5,000 in contingent consideration. The working capital settlement resulted in an adjustment of $1,037 recorded in the first quarter of 2016 based on the preliminary estimate at closing of $700 receivable compared to the final settlement amount of $337 payable.

The contingent consideration will be achieved if certain proposed new Ontario pension legislation arrangements are not put in place until after June 1, 2017, the Company will be entitled to $3,200 of this additional consideration. In addition, the Company could also earn some or all of its entitlement if the businesses sold achieve certain revenue performance targets in 2016.

The details of the sale of the subsidiary are as follows:

	$
Consideration received:	
Cash	245,672
Estimated working capital settlement	700
Fair value of contingent consideration	—
Total consideration	**246,372**
Transaction costs related to the divestiture	(7,714)
Carrying amount of net assets sold	(154,290)
Gain on sale before tax	**84,368**
Income tax expense on gain	(4,028)
Gain on sale as of December 31, 2015	**80,340**
Working capital settlement adjustment	**(1,037)**
Gain on sale as of September 30, 2016	**79,303**

(in thousands of Canadian dollars, except for share amounts)

16. Discontinued Operations - continued

Results from Discontinued Operations

The results from discontinued operations for the three and nine month periods ended September 30, 2016 and 2015 are as follows:

	For the three month period ended September 30, 2016			
	Physiotherapy, Rehabilitation and Assessments $	**Specialty Pharmacy $**	**Surgical and Medical Centres $**	**Total $**
Revenues	—	—	—	—
Expenses	—	—	—	—
Depreciation and amortization	—	—	—	—
Loss before income taxes from discontinued operations	—	—	—	—
Income tax expense	—	—	—	—
Loss from discontinued operations	—	—	—	—

	For the nine month period ended September 30, 2016			
	Physiotherapy, Rehabilitation and Assessments $	**Specialty Pharmacy $**	**Surgical and Medical Centres $**	**Total $**
Revenues	—	—	—	—
Expenses	—	—	—	—
Depreciation and amortization	—	—	—	—
Final working capital settlement	1,037	—	—	1,037
Loss before income taxes from discontinued operations	(1,037)	—	—	(1,037)
Income tax expense (recovery)	—	—	—	—
Net loss from discontinued operations	(1,037)	—	—	(1,037)

(in thousands of Canadian dollars, except for share amounts)

16. Discontinued Operations - continued

	For three month period ended September 30, 2015 (restated)			
	Physiotherapy, Rehabilitation and Assessments $	**Specialty Pharmacy $**	**Surgical and Medical Centres $**	**Total $**
Revenues	45,237	—	13	**45,250**
Expenses	40,068	—	(92)	**39,976**
Depreciation and amortization	3,920	—	—	**3,920**
Income before income taxes from discontinued operations	1,249	—	105	**1,354**
Income tax recovery	(3,143)	—	(33)	**(3,176)**
Net income from discontinued operations	4,392	—	138	**4,530**

	For the nine month period ended September 30, 2015 (restated)			
	Physiotherapy, Rehabilitation and Assessments $	**Specialty Pharmacy $**	**Surgical and Medical Centres $**	**Total $**
Revenues	140,843	—	382	**141,225**
Expenses	123,334	57	732	**124,123**
Depreciation and amortization	11,668	—	52	**11,720**
Income (loss) before income taxes from discontinued operations	**5,841**	**(57)**	**(402)**	**5,382**
Income tax recovery	(1,192)	—	(45)	**(1,237)**
Net income (loss) from discontinued operations	7,033	(57)	(357)	**6,619**

Included in net losses from discontinued operations is income attributable to non-controlling interests of $24 and $10 for the three and nine month periods ended September 30, 2015, respectively.

(in thousands of Canadian dollars, except for share amounts)

16. Discontinued Operations - continued

The cash flows from discontinued operations for the three and nine month periods ended September 30, 2016 and 2015 are as follows:

	For the three month periods ended September 30,		**For the nine month periods ended September 30,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Operating cash flows	—	6,481	—	20,407
Investing cash flows	—	(538)	—	(2,422)
Financing cash flows	—	(63)	—	(82)
Total Cash Flows	—	5,880	—	17,903

(in thousands of Canadian dollars, except for share amounts)

17. 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, and the completion of acquisitions or divestitures. 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.

In the third quarter of 2016, the Company settled a dispute with the purchaser of the Company's former retail and home medical equipment segment in September 2014 for approximately $3,000 including legal fees, for which a provision was previously booked as of June 30, 2016.

18. 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,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Trade and other receivables	**(1,565)**	3,329	**(1,926)**	1,944
Inventories	**(324)**	785	**(141)**	881
Prepaid expenses	**(29)**	(107)	**(272)**	(323)
Trade payables and other amounts	**210**	(2,817)	**(13,229)**	2,704
Total	**(1,708)**	1,190	**(15,568)**	5,206

The year-to-date change in trade payables and accrued liabilities is primarily due to the payment of approximately $6,500 of accrued transaction costs associated with the Sale Transaction, lower accrued interest as a result of debt repayment, and timing of working capital payments.

19. Subsequent Events

On October 7, 2016, the Company completed the acquisition of 100% of the shares of CareRx Enterprises Ltd. ("CareRx"), a leading provider of pharmacy services to seniors communities in British Columbia. CareRx serves approximately 1,500 beds at 26 long-term care and assisted living communities through its three fulfilment centres located in Vancouver, Victoria and Nanaimo.

The total purchase consideration on closing consisted of $6,000 in cash and 2,000,000 in common shares of the Company. In addition, contingent consideration consisted of:

- An amount payable depending on the Company's share price as specified in the purchase agreement;
- Up to $1,000 cash and outperform warrants to purchase up to 1,000,000 common shares upon the execution of certain long-term contracts; and
- Up to $3,500 performance cash, 2,500,000 performance shares, and outperform warrants to purchase up to 1,000,000 common shares upon achieving one-year EBITDA target of $2,250.

The outperform warrants have an exercise price of $0.395 and a 2-year term from the date on which they vest and become exercisable.

The Company issued options to key management and staff of CareRx to purchase 1,000,000 common shares subject to the Company's Share Option Plan.

The fair value of the total purchase consideration and the assets acquired and liabilities assumed will be completed upon the finalization of CareRx's opening balance sheet.