Unaudited Condensed Interim Consolidated Financial Statements
For the three month periods ended March 31, 2017 and 2016

(in thousands of Canadian dollars)

Dated: May 9, 2017

Index

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

	March 31, 2017	December 31, 2016
	$	$
Assets		
Current assets		
Restricted cash (notes 2 and 17)	**3,000**	3,000
Trade and other receivables	**23,450**	24,864
Inventories	**7,456**	7,556
Prepaid expenses and other current assets	**1,355**	1,551
	35,261	36,971
Non-current assets		
Property and equipment (note 5)	**13,483**	12,661
Goodwill and intangible assets (note 5)	**97,494**	97,562
Deferred income tax assets (note 6)	**4,329**	7,893
Total assets	**150,567**	155,087
Liabilities		
Current liabilities		
Trade payables and other amounts (note 7)	**24,644**	23,564
Current portion of borrowings (note 8)	**59,475**	33,851
Current portion of contingent consideration (note 4)	**3,745**	4,010
Current portion of finance lease liabilities	**178**	256
	88,042	61,681
Non-current liabilities		
Borrowings (note 8)	**25,722**	61,607
Other deferred amounts (note 9)	**15,946**	16,374
Contingent consideration (note 4)	**5,599**	6,684
Deferred income tax liabilities (note 6)	**742**	4,739
Deferred lease incentives	**575**	639
Finance lease liabilities	**165**	164
Derivative liability portion of convertible borrowings (note 11)	**403**	254
Total liabilities	**137,194**	152,142
Equity		
Share capital (note 10)	**127,355**	111,542
Warrants	**787**	158
Contributed surplus	**29,132**	28,841
Equity portion of convertible borrowings	**—**	2,905
Deficit	**(144,231)**	(140,863)
Equity attributable to shareholders of Centric Health Corporation	**13,043**	2,583
Non-controlling interests	**330**	362
Total equity	**13,373**	2,945
Total liabilities and equity	**150,567**	155,087

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

Approved by the Board

"Dr. Jack Shevel"	"Yazdi Bharucha"
Dr. Jack Shevel, Director	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 March 31,	
	2017	2016 (Note 17)
	$	$
Revenue	**43,563**	40,694
Cost of healthcare services and supplies	**27,701**	25,930
General and administrative expenses (note 13)	**13,538**	15,085
Transaction, restructuring and other costs (note 14)	**1,656**	779
Income (Loss) from operations	**668**	(1,100)
Interest expense (note 15)	**3,821**	8,211
Change in fair value of derivative financial instruments (note 11)	**149**	(46)
Change in fair value of contingent consideration liability (note 4)	**(958)**	287
Loss before income taxes	**(2,344)**	(9,552)
Income tax expense (recovery) (note 6)	**985**	(676)
Net loss from continuing operations	**(3,329)**	(8,876)
Loss from discontinued operations (note 17)	**—**	(1,146)
Net loss	**(3,329)**	(10,022)
Net loss attributable to:		
Shareholders of Centric Health Corporation	**(3,368)**	(9,953)
Non-controlling interests	**39**	(69)
Basic and diluted earnings per common share attributable to shareholders of Centric Health Corporation:		
From continuing operations	**($0.02)**	($0.05)
From discontinued operations	**$0.00**	($0.01)
From earnings for the period	**($0.02)**	$(0.06)
Weighted average number of common shares outstanding (in thousands) (note 10)		
Basic and diluted	**179,693**	161,974

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 common shares)

	Number of common shares[1]	Share capital $	Warrants $	Contributed surplus $	Equity portion of convertible borrowings $	Deficit $	Equity attributable to the shareholders of Centric Health Corporation $	Non-controlling interest $	Total $
Balance at December 31, 2015	**160,882,600**	**107,900**	**3,787**	**16,662**	**7,119**	**(121,186)**	**14,282**	**663**	**14,945**
Common shares Released from escrow or treasury and warrants issued related to contingent consideration	1,075,000	253	6	—	—	—	259	—	259
Deferred compensation expense	300,000	251	24	(25)	—	—	250	—	250
Payment of non-controlling interests	—	—	—	—	—	—	—	(67)	(67)
Net loss for the period	—	—	—	—	—	(9,953)	(9,953)	(69)	(10,022)
Balance at March 31, 2016	**162,257,600**	**108,404**	**3,817**	**16,637**	**7,119**	**(131,139)**	**4,838**	**527**	**5,365**
Balance at December 31, 2016	**169,982,529**	**111,542**	**158**	**28,841**	**2,905**	**(140,863)**	**2,583**	**362**	**2,945**
Issuance of common shares	80,000	54	—	—	—	—	54	—	54
Options, warrants and RSUs exercised	182,600	88	(3)	(33)	—	—	52	—	52
Conversion of debt (note 8)	28,331,093	15,671	632	—	(2,905)	—	13,398	—	13,398
Deferred compensation expense	—	—	—	324	—	—	324	—	324
Payment of non-controlling interests	—	—	—	—	—	—	—	(71)	(71)
Net income (loss) for the period	—	—	—	—	—	(3,368)	(3,368)	39	(3,329)
Balance at March 31, 2017	**198,576,222**	**127,355**	**787**	**29,132**	**—**	**(144,231)**	**13,043**	**330**	**13,373**

[1] Excludes 5,521,025 of contingent shares held in escrow and restricted shares as at March 31, 2017 (note 10).

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 March 31,	
	2017	2016
Cash provided by (used in):	**$**	$
Operating activities		
Net loss for the period	**(3,329)**	(10,022)
Adjustments for:		
Interest expense (note 15)	**3,821**	8,211
Change in fair value of derivative financial instruments (note 11)	**149**	(46)
Loss (gain) on disposal of property, equipment and intangible assets	**25**	(1)
Depreciation of property and equipment (note 5)	**749**	684
Amortization of finite-life intangible assets (note 5)	**1,099**	2,355
Amortization of lease incentives and lease inducements	**(64)**	(59)
Income taxes paid	**(298)**	(354)
Income tax expense (recovery)	**985**	(666)
Share-based compensation expense (note 13)	**324**	261
Change in the fair value of contingent consideration liability (note 4)	**(958)**	287
Supply agreement arrangements, net of amortization (note 9)	**(428)**	—
Loss on sale of business (note 17)	—	1,037
Net change in non-cash working capital items (note 19)	**(961)**	(8,895)
Cash provided by (used in) operating activities	**1,114**	(7,208)
Investing activities		
Proceeds from restricted cash used for debt repayment (note 2)	—	224,149
Proceeds on disposal of property, equipment and intangible assets	**8**	12
Purchase of intangible assets (note 5)	**(124)**	(63)
Purchase of property and equipment (note 5)	**(1,604)**	(257)
Payment of contingent consideration (note 4)	**(500)**	—
Cash provided by (used in) investing activities	**(2,220)**	223,841
Financing activities		
Interest paid	**(243)**	(5,863)
Repayment of borrowings (note 8)	—	(202,661)
Restricted cash released from restrictions following the repurchase of Notes (note 8)	—	10,023
Withdrawal from (repayment of) Revolving Facility	**1,447**	(22,000)
Repayment of finance leases	**(77)**	(77)
Payments to non-controlling interests	**(71)**	(67)
Proceeds from warrants and options exercised	**50**	—
Cash provided by (used in) financing activities	**1,106**	(220,645)
Decrease in cash and cash equivalents	—	(4,012)
Cash and cash equivalents, beginning of period	—	14,881
Cash and cash equivalents, end of period	—	10,869

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements Refer to note 17 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, 2016.

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, 2016. 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 May 9, 2017.

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 ("CDs") 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 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 17) to Audax Private Equity, 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.

Completion of Debt Refinancing Plan

On May 3, 2017, the Company signed definitive agreements with a syndicate of lenders comprised of three major Canadian banks providing for new credit facilities in an aggregate amount of up to $113,500 subject to closing conditions being satisfied on or about June 2, 2017. The new credit facilities are made up of up to $100,000 in senior secured facilities (the "Senior Facilities") and $13,500 in secured subordinated term credit facilities (the "Subordinated Facilities") (collectively, the "New Credit Facilities"). Subject to satisfaction of certain conditions, the Company may increase the Senior Facilities by an additional $25,000 for total senior credit facilities of $125,000.

The credit facilities will be used to refinance the Company's existing debt instruments, including its (i) Revolving Facility of up to $35,000 capacity, (ii) its 8.625% Notes due April 18, 2018 of $25,894 and (iii) its 6.75% unsecured subordinated October 2017 CDs of $27,500, and to provide capacity for potential acquisitions, capital expenditures, organic growth initiatives and general working capital and corporate purposes. All of the credit facilities are guaranteed by the Company's subsidiaries and secured by the assets of the Company and each of its subsidiaries. Simultaneously with the signing of the definitive agreements, the Company has delivered redemption notices to the holders of the Notes and the October 2017 CDs in accordance with the terms of their respective indentures.

The Senior Facilities are structured as follows: (i) a revolving credit facility in the amount of up to $20,000, including a swingline of up to $3,000, (ii) a non-revolving term loan facility in the amount of up to $60,000, and (iii) a limited revolving acquisition and capital expenditure term loan facility in the amount of up to $20,000 to be available in multiple draws. Subject to satisfaction of certain conditions, the revolving credit facility may be increased by an additional $5,000 and the acquisition and capital expenditure term loan facility may be increased by up to an additional $20,000. All borrowings under the Senior Facilities mature five years after the date of the agreement.

Interest rates under the Senior Facilities vary based on the Company's total funded debt to EBITDA ratio within between 0.50% to 3.25% over the Canadian prime rate for prime rate loans and 2.00% to 4.75% for Bankers' Acceptances.

2. Capital Management, Liquidity Risk and Financing

The Subordinated Facilities consist of a term loan to be fully drawn in one advance for a total of $13,500, which accrues interest at a rate of 9% per annum. The Subordinated Facilities mature five and a half years after the date of the agreement. The Company may prepay up to $2,000 of the amount drawn on the Subordinated Facilities on or before July 31, 2017 subject to certain conditions and can prepay other portions of the Subordinated Facilities 18 months after the date of the agreement without any premium or penalty but subject to certain conditions. Proceeds from the Subordinated Facilities will be used to partially refinance the Company's existing debt.

The New Credit Facilities are expected to result in a significant reduction in annual finance charges, with the Company's weighted average interest rate decreasing from the current rate of 6.7% per annum to approximately 5.25% on closing.

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, as well as the subsequent conversion of the July 2017 CDs with principal outstanding of $9,080 and the Jamon promissory note with principal outstanding of $5,000 into equity (note 8). In addition, the signing of the New Credit Facilities, along with future organic growth, ongoing operational and cost containment initiatives, the benefits from the integration of recent acquisitions and additional liquidity improvements from up to $8,000 in consideration receivable from the Sale Transaction and approximately $7,000 of further supply agreement payments, will provide sufficient cash flow to continue to strengthen the Company's balance sheet and provide sufficient liquidity for potential acquisitions, capital expenditures, organic growth initiatives and general working capital and corporate purposes.

Based on the 2017 operating plan, the Company anticipates it will be in compliance with the covenants in its Revolving Facility and its New Credit Facilities throughout 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 2017.

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

3. Business Combinations

The Company had no acquisitions during the quarter ended March 31, 2017.

Details of the 2016 acquisitions are set out below.

	Pharmacy West	**CareRx**	**Medicine Hat**	**Grande Prairie**	**2016 Acquisitions**
Close date	June 6, 2016	October 7, 2016	November 18, 2016	December 22, 2016	
Total consideration					
Cash	590	6,000	1,884	3,750	12,224
Common shares	—	710	—	325	1,035
Deferred cash consideration	—	—	138	490	628
Deferred share consideration	—	—	—	220	220
Contingent consideration	138	2,988	413	1,064	4,603
Total consideration	**728**	**9,698**	**2,435**	**5,849**	**18,710**
Net assets assumed					
Current assets	290	686	203	826	2,005
Fixed assets and intangibles	152	1,143	8	186	1,489
Liabilities	(291)	(455)	(7)	(543)	(1,296)
Net assets assumed	**151**	**1,374**	**204**	**469**	**2,198**
Goodwill and intangible assets recognized as of March 31, 2017					
Total consideration	728	9,698	2,435	5,849	18,710
Working capital adjustment	23	(53)	105	185	260
Less: Net assets assumed	(151)	(1,374)	(204)	(469)	(2,198)
Goodwill and intangible assets	**600**	**8,271**	**2,336**	**5,565**	**16,772**

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 and will recognize the difference to goodwill until the fair values are finalized. The goodwill is attributable to the expected synergies with existing businesses and the profitability of the acquired businesses.

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

4. Contingent Consideration

The fair value of contingent consideration is an estimate. The valuation model considers possible scenarios of forecast EBITDA or other performance metrics, 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	Pharmacare	CareRx	Grande Prairie	Other	Total
	$	$	$	$	$	**$**
Balance at December 31, 2016	1,414	4,583	2,766	1,069	862	**10,694**
Additions to contingent consideration	—	—	—	—	108	**108**
Change in fair value during the period	8	111	(684)	(317)	(76)	**(958)**
Contingent consideration settled in cash	(500)	—	—	—	—	**(500)**
Balance at March 31, 2017	**922**	**4,694**	**2,082**	**752**	**894**	**9,344**
Less: current portion	**922**	**—**	**1,929**	**—**	**894**	**3,745**
Non-current portion at March 31, 2017	**—**	**4,694**	**153**	**752**	**—**	**5,599**

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. On December 2, 2015, the earn-out target was met. On February 9, 2016, the Company released 1,075,000 escrowed shares and 96,000 warrants (note 10) to the vendors. On February 22, 2017, the Company paid $500 of the liability, with the remaining $922 to be paid in the second quarter of 2017.

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 accelerate the post-earn out phase of integration into the Company's national Specialty Pharmacy segment and incorporate recent and planned acquisitions.

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 a threshold of beds being serviced. 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 $5,163 in performance cash, 4,782,609 common shares of the Company and the issuance of 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 March 31, 2017, 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 $4,694. As of March 31, 2017, the expected range of the potential undiscounted amounts payable remaining is between $nil and $7,777, which includes the liability portion of $5,162 related to the performance cash and the equity portion of $2,615 related to the common shares and warrants.

4. Contingent Consideration - continued

As a result of the amendment to the terms of the agreement, which resulted in a change from a variable number of common shares paid out to a fixed number of common shares paid out, the remaining liability with respect to common shares of the Company was reclassified from liabilities to equity.

On October 7, 2016, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of CareRx in the amount of $2,988, which represented its fair value at the date of acquisition, payable over a three year period. The fair value on acquisition consisted of $967 in performance cash, $468 in performance shares (up to a maximum 2,500,000 common shares) and $nil in warrants (up to a maximum of 2,000,000 warrants) based on the probability of meeting or exceeding EBITDA targets and executing certain long-term contracts. On the acquisition date and as at March 31, 2017, the Company estimated that CareRx would achieve 73% of the EBITDA target. The warrants will vest if CareRx exceeds the EBITDA target and/or executes certain long-term contracts, allowing the holder to purchase one share of the Company at an exercise price of $0.395 over a 2 year term. In addition, the fair value of contingent consideration on the date of acquisition included $1,553, which is payable depending on the Company's share price on a future date. This amount was estimated based on a risk-adjusted discount rate of 10% and the Company's share price on the acquisition date. As of March 31, 2017, the expected range of the potential undiscounted amounts payable remaining is between $nil and $9,961.

On December 22, 2016, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of Grande Prairie in the amount of $1,064, which represented its fair value at the date of acquisition, payable over a three year period. The fair value on acquisition consisted of $405 in performance cash, $220 in performance shares (up to a maximum of 400,000 common shares) and $nil in warrants (up to a maximum of 400,000 warrants) based on the probability of meeting or exceeding EBITDA targets. On the acquisition date and as at March 31, 2017, the Company estimated a 100% probability of meeting the EBITDA target. The warrants will vest if Grande Prairie exceeds the EBITDA target, allowing the holder to purchase one share of the Company at an exercise price of $0.5382 over a 2 year term. In addition, the fair value of contingent consideration on the date of acquisition included $439, which is payable depending on the Company's share price on a future date. This amount was estimated based on a risk-adjusted discount rate of 10% and the Company's share price on the acquisition date. As of March 31, 2017, the expected range of potential undiscounted amounts payable remaining is between $nil and $2,056.

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

5. Goodwill, Intangible Assets and Property and Equipment

	Goodwill $	Intangible Assets $	Goodwill and Intangible Assets $	Property and Equipment $
Year ended December 31, 2016				
Cost				
Balance at December 31, 2015	63,077	79,719	142,796	22,821
Acquisition of business	16,772	60	16,832	1,429
Additions	—	259	259	2,684
Disposals	—	—	—	(28)
Disposals from sale of business	—	—	—	(956)
Purchase price allocation adjustment	(60)	60	—	—
Balance at December 31, 2016	79,789	80,098	159,887	25,950
Accumulated amortization and impairment losses				
Balance at December 31, 2015	(7,159)	(46,202)	(53,361)	(11,129)
Amortization charge	—	(8,964)	(8,964)	(2,821)
Disposals	—	—	—	8
Disposals from sale of business	—	—	—	653
Balance at December 31, 2016	(7,159)	(55,166)	(62,325)	(13,289)
For the period ended March 31, 2017				
Cost				
Balance at December 31, 2016	79,789	80,098	159,887	25,950
Additions	—	1,031	1,031	1,604
Disposals	—	—	—	(47)
Balance at March 31, 2017	**79,789**	**81,129**	**160,918**	**27,507**
Accumulated amortization and impairment losses				
Balance at December 31, 2016	(7,159)	(55,166)	(62,325)	(13,289)
Amortization charge	—	(1,099)	(1,099)	(749)
Disposals	—	—	—	14
Balance at March 31, 2017	(7,159)	**(56,265)**	**(63,424)**	**(14,024)**
Net carrying value				
As at December 31, 2016	72,630	24,932	97,562	12,661
As at March 31, 2017	**72,630**	**24,864**	**97,494**	**13,483**

Included in the net carrying value of property and equipment are assets under finance leases of $295 (December 31, 2016 - $372). During the three month period ended March 31, 2017, additions of property and equipment acquired through finance leases were $nil (2016 - $97).

The Company has $1,084 of indefinite life intangible assets at March 31, 2017 (December 31, 2016 - $1,084).

There has been no indication of impairment of assets during the three month period ended March 31, 2017.

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

6. 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 26.32% (2016 - 26.48%) to net income due to permanent differences. Permanent differences in the three month periods ended March 31, 2017 and 2016 arose as a result of capital gains, unrecognized deferred tax assets, contingent consideration, share-based compensation and other expenses, as these amounts have been recorded for accounting purposes but will never be realized as income or 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 liability on the statement of financial position is as follows:

	March 31, 2017	December 31, 2016
	$	$
Deferred income tax asset	**4,329**	7,893
Deferred income tax liability	**742**	4,739
Net deferred income tax liability	**3,587**	3,154

Deferred tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable income is probable. As at March 31, 2017, the Company had losses amounting to $48,161 (December 31, 2016 - $47,002) that can be carried forward against future taxable income. Based on the projections for future taxable income over the periods in which the losses should be available, a deferred tax asset of $3,979 was recognized with respect to $15,070 losses, while the remaining portion of the losses resulted in unrecognized deferred tax assets of $8,922 (December 31, 2016 - $8,663).

7. Trade Payables and Other Amounts

Trade payables and other amounts at March 31, 2017 and December 31, 2016 are comprised of the following:

	March 31, 2017	December 31, 2016
	$	$
Trade payables	**10,694**	**10,791**
Accrued liabilities	**11,673**	**11,298**
Deferred revenue	**1,133**	**922**
Amounts payable to related parties (note 12)	**398**	**76**
Severance costs (note 14)	**746**	**477**
Total	**24,644**	**23,564**

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

8. Borrowings

Borrowings consist of the following:

	March 31, 2017	December 31, 2016
	$	$
Second lien senior secured notes	**25,894**	25,894
Loan arrangement costs	**(172)**	(212)
Revolving Facility	**33,252**	31,805
Convertible debt	**27,500**	36,580
Unaccreted discount on convertible debt	**(1,277)**	(2,729)
Promissory notes (note 12)	**—**	5,000
Unaccreted discount on promissory notes	**—**	(880)
Total borrowings	**85,197**	95,458
Less current portion of borrowings:		
Revolving Facility	**33,252**	—
Convertible debt - private placement and public debt net of unaccreted discount	**26,223**	33,851
Total current portion of borrowings	**59,475**	33,851
Total non-current portion of borrowings	**25,722**	61,607

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 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 repurchased 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 paid $169,072 to the holders of 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.

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, 2016 - $nil).

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

8. 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 March 31, 2017 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 balance at March 31, 2017	Principal balance at December 31, 2016	Maturity	Interest Rate
Private placement	—	9,080	July 31, 2017	6.50%
Public debt	27,500	27,500	October 31, 2017	6.75%
Total convertible debt	**27,500**	**36,580**		
Jamon promissory note (note 12)	—	5,000	April 30, 2018	6.00%
Total promissory notes	**—**	5,000		

On September 14, 2012, the Company completed a public offering of $25,000 subordinated, unsecured convertible notes. An additional $2,500 funds from over-allotments were received on October 3, 2012. The notes bear interest at 6.75% per annum, payable semi-annually and mature on October 31, 2017. Each note is convertible into common shares of the Company at the option of the holder at a strike price of $1.12 per share. The Company can also elect to settle the interest and principal amounts in common shares or cash on redemption which may occur no earlier than October 31, 2015. The convertible notes are subordinated to the Company's senior debt.

On March 23, 2016, the Company amended its 5.5% April 2016 Convertible Notes ("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 (together with the Amended 2016 Note Terms, "July 2017 CDs") 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.

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

8. Borrowings - continued

On December 20, 2016 the Company announced a normal course issuer bid ("NCIB") to purchase through the facilities of the TSX for cancellation up to $2,750 principal amount, representing 10% of the $27,500 principal amount issued and outstanding of the 6.75% 2017 Convertible Notes maturing on October 31, 2017 ("October 2017 CDs") bearing interest at 6.75%. The NCIB, which has received TSX approval, expires on October 30, 2017 unless terminated earlier by the Company. The Company intends to carry out the NCIB pursuant to an automatic purchase plan. The consideration that the Company will pay for any October 2017 CDs it acquires under the NCIB will be in cash at such price or prices as may be determined by the Board or as the Board may delegate from time to time and in accordance with the rules of the TSX. Under TSX rules, the Company may purchase daily, through the facilities of the TSX, a maximum of $11 principal amount of the 6.75% 2017 Convertible Notes representing 25% of the average daily trading volume, as calculated per the TSX rules for the most recently completed six calendar months. At March 31, 2017, the total amount repurchased by the Company under the NCIB was $nil.

On March 2, 2017, the Company early converted the outstanding principal balance of the July 2017 CDs ($9,080 principal outstanding) and the unsecured 6.0% Jamon promissory note ($5,000 principal outstanding) to common shares of the Company pursuant to the terms of each instrument. The July 2017 CDs have a conversion price of $0.52 per common share, resulting in the issuance of 17,461,538 common shares of the Company, and the Jamon promissory note has conversion price of $0.46 per common share, resulting in the issuance of 10,869,565 common shares of the Company. In consideration for early conversion, the holders of the July 2016 CDs and the Jamon promissory note will receive 500,000 warrants and 1,400,000 warrants, respectively, exercisable at $1.00 per share and expiring on the third anniversary from the date of issuance. Interest will also be paid to the holders of the July 2017 CDs and the Jamon promissory note, in the amount of $441 and $398, respectively. The conversion of the two instruments, in aggregate, further reduces the Company's outstanding debt by $14,080.

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

	March 31, 2017	December 31, 2016
	$	$
Unaccreted discount on convertible borrowings, beginning of period	**2,729**	6,900
Adjustments to discount on convertible borrowings	**(531)**	1,464
Accretion expense (note 15)	**(921)**	(5,635)
Unaccreted discount on convertible borrowings, end of period	**1,277**	2,729

The derivative liability portion of convertible borrowings is as follows:

	March 31, 2017	December 31, 2016
	$	**$**
Derivative liability portion of convertible borrowings, beginning of period	**254**	66
Change in fair value of derivative liability portion of convertible borrowings	**149**	188
Derivative liability portion of convertible borrowings, end of period	**403**	254

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

8. 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 March 31, 2017 are as follows:

	Public debt
Expected volatility	42.82%
Risk-free interest rate	0.96%
Credit spread	2.84%

Fair Value of Derivative Financial Instruments

The change in fair value of derivative financial instruments for the three month periods ended March 31, 2017 and 2016 are as follows:

	For the three month periods ended March 31,	
	2017	2016
	$	$
Change in fair value of derivative liability portion of convertible borrowings	**149**	(46)

9. Other Deferred Amounts

On July 14, 2016, the Company entered into 10-year Business Development, Technology and Supply Agreements with a new drug supplier (the "Agreements"). Under the terms of these Agreements, the Specialty Pharmacy business has committed to an exclusive supply agreement with this supplier. In addition, the supplier has committed $17,160 to support innovative programs and solutions, as well as organic and acquisitive growth strategies of the Company. As of March 31, 2017 , the Company has received $9,850. On April 18, 2017, the Company received $5,000. The remaining $2,310 is included in Trade and Other Receivables and is expected to be received before August 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)	**March 31, 2017**		December 31, 2016	
Common shares	**Common Shares**	**Stated value \$**	Common Shares	Stated value \$
Balance, beginning of period	**169,982,529**	**111,542**	160,882,600	107,900
Issuance of common shares	**80,000**	**54**	3,090,000	1,278
Issuance of common shares as compensation	—	—	300,000	301
Issuance of common shares for extinguishment of debt	**28,331,093**	**15,671**	—	—
Common shares released from escrow or issued from treasury for contingent consideration[1]	—	—	4,553,260	1,609
Stock options, warrants and restricted share units exercised	**182,600**	**88**	1,156,669	454
Balance, end of period	**198,576,222**	**127,355**	169,982,529	111,542

[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.

The number of common shares considered to be issued for financial reporting purposes is exclusive of restricted shares issued, common 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 March 31, 2017 are:

Type of common shares	
Freely tradeable	198,576,222
Escrowed and restricted	5,521,025
Total	**204,097,247**

The continuity of restricted and escrowed shares for the three month period ended March 31, 2017 is as follows:

Escrowed and restricted shares	
Balance at beginning of the year	5,201,025
Issued escrowed shares	320,000
Total	**5,521,025**

Issuance of common shares

On February 8, 2017, the Company issued 400,000 common shares as part of a multi-year agreement with a multi-provincial customer, of which 320,000 common shares are held in escrow to be released over the term of the agreement.

On March 2, 2017, the Company issued 28,331,093 common shares for the early conversion of the July CDs and the Jamon promissory note (note 8).

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

10. Shareholders' Equity and Earnings per Share - continued

On March 16, 2017, the Company issued 57,600 common shares for warrants exercised.

On March 22, 2017, the Company issued 75,000 common shares for options exercised.

In March 2017, the Company issued 50,000 common shares to certain members of management and employees related to restricted share units that vested.

Issuance of stock options

The Company issued stock options to certain management and employees as part of the acquisitions in 2015 and 2016. The fair value of the options issued are calculated using the Black-Scholes pricing model with the following assumptions:

	Pharmacare	**Pharmacy West**	**CareRx**	**Medicine Hat**	**Grande Prairie**
Grant Date	March 31, 2015	June 7, 2016	October 12, 2016	November 18, 2016	December 22, 2016
Number of options issued	1,000,000	150,000	1,000,000	100,000	300,000
Dividend Yield	Nil	Nil	Nil	Nil	Nil
Expected volatility	64% to 75%	69% to 76%	69% to 73%	69% to 72%	70% to 72%
Risk-free interest rate	0.59%	0.59%	0.66%	0.82%	1.03%
Expected life in years	3.8	3.7	3.7	3.7	3.7
Strike price	0.400	0.240	0.355	0.440	0.520
Share price at date of issue	0.400	0.240	0.355	0.440	0.520
Forfeiture rate	10%	10%	10%	10%	10%
Fair value per option	0.20	0.12	0.18	0.22	0.27

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

For the period ended	**March 31, 2017**		December 31, 2016	
Common share options	**Options**	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of period	**3,345,000**	**$0.49**	5,691,000	$1.43
Options granted	**—**	**—**	1,550,000	$0.40
Options exercised	**(75,000)**	**0.39**	—	—
Options expired	**—**	**—**	(3,896,000)	$1.82
Options canceled/forfeited	**(325,000)**	**$0.83**	—	—
Balance, end of period	**2,945,000**	**$0.46**	3,345,000	$0.49
Exercisable, end of period	**870,000**	**$0.62**	1,002,500	$0.73

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

10. Shareholders' Equity and Earnings per Share - continued

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding as at March 31, 2017 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- $0.30	150,000	$0.24	4.2	—	—
$0.31- $0.37	1,000,000	$0.36	4.5	—	—
$0.38- $0.42	1,025,000	$0.40	3.0	500,000	$0.40
$0.43- $0.64	400,000	$0.50	4.7	—	—
$0.65- $0.95	370,000	$0.92	0.1	370,000	$0.92
Balance, end of period	**2,945,000**	**$0.46**	**3.4**	**870,000**	**$0.62**

Issuance of deferred stock-based compensation

On March 10, 2017, the Company issued 235,000 restricted share units to management and employees of the Company which entitle the holders to 235,000 common shares of the Company. These restricted share units have been fair valued based on the quoted market price of issuance of $0.720 per share and vest over three years.

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

For the period ended	**March 31, 2017**	December 31, 2016
Restricted share units	**Units**	Units
Balance, beginning of period	**4,738,984**	2,642,488
Restricted share units granted	**235,000**	3,820,000
Restricted share units released	**(50,000)**	(1,156,669)
Restricted share units forfeited	**(338,332)**	(566,835)
Balance, end of period	**4,585,652**	4,738,984

The weighted-average remaining contractual life of restricted share units outstanding as at March 31, 2017 is 2.22 years.

Issuance of warrants

On March 2, 2017, the Company issued 1,900,000 warrants for the early conversion of the July CDs and the Jamon promissory note (note 8). The warrants expire three years from issuance and have a strike price of $1.00 per share.

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

10. Shareholders' Equity and Earnings per Share - continued

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

For the period ended	**March 31, 2017**		December 31, 2016	
Share purchase warrants	**Warrants**	**Weighted average exercise price**	Warrants	Weighted average exercise price
Balance, beginning of period	**1,096,000**	**$0.45**	7,595,507	$1.01
Warrants granted	**1,900,000**	**$1.00**	96,000	$0.37
Warrants exercised	**(57,600)**	**$0.37**	—	—
Warrants expired	—	—	(6,595,507)	$1.10
Balance, end of period	**2,938,400**	**$0.81**	1,096,000	$0.45
Exercisable, end of period	**2,938,400**	**$0.81**	1,096,000	$0.45

The weighted-average remaining contractual life and weighted-average exercise price of warrants outstanding as at March 31, 2017 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**
$0.37 -$ 1.00	**2,938,400**	**$0.81**	**2.27**	**2,938,400**	**$0.81**

Earnings per share

Earnings per share has been calculated on the basis of profit or loss for the period divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share, for all years presented, was calculated based on the weighted average number of common shares outstanding and takes into account the effects of unvested common shares, share options, warrants and convertible debt outstanding during the period. Loss per share is not adjusted for 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 common shares outstanding for the three month periods ended March 31, 2017 and 2016:

	For the three month periods ended March 31,	
	2017	2016
Basic and diluted weighted average common shares outstanding	**179,693,158**	161,973,517

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

11. Financial Instruments and Fair Value Measurements

At March 31, 2017, 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 common shares and derivative liabilities associated with convertible loans.

Recurring fair value measurements at March 31, 2017 are as follows:

	Level 3 $	Total $
Contingent consideration	9,344	**9,344**
Derivative liability portion of convertible borrowings	403	**403**
Total	**9,747**	**9,747**

Recurring fair value measurements at December 31, 2016 are as follows:

	Level 3 $	Total $
Contingent consideration	10,694	**10,694**
Derivative liability portion of convertible borrowings	254	**254**
Total	**10,948**	**10,948**

There were no non-recurring fair value measurements at March 31, 2017. There were no financial instruments classified as level 1 at March 31, 2017 and 2016. There were no transfers between levels during the three month period ended March 31, 2017.

Details regarding level 3 fair value measurements for contingent consideration can be found in note 4 and for the derivative financial instruments related to derivative liability portion of convertible borrowings in note 8.

There were no changes in the valuation techniques used during the three month period ended March 31, 2017.

(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:

	March 31, 2017	December 31, 2016
	$	$
Financial assets measured at amortized cost		
Restricted cash	**3,000**	3,000
Trade and other receivables	**23,450**	24,864
Financial liabilities measured at amortized cost		
Trade payables and other amounts	**24,644**	23,564
Finance lease liability	**343**	420
Second lien senior secured notes	**25,722**	25,682
Convertible borrowings	**26,223**	33,851
Revolving facility	**33,252**	31,805
Related party convertible loan	**—**	4,120

The fair value of the second lien senior secured notes at March 31, 2017 is $26,218 (December 31, 2016 - $26,250) and has a carrying value of $25,722 (December 31, 2016 - $25,682). 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 1.00% and credit spread of 6.33%).

The fair value of the convertible borrowings, excluding Jamon, a related party, as at March 31, 2017 is $27,569 (December 31, 2016 - $37,527) and has a carrying value of $26,223 (December 31, 2016 - $33,851). 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 0.96% and credit spread of 2.84%).

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 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:

	March 31, 2017	December 31, 2016
	$	$
0 - 30 days	**19,372**	22,423
31-60 days	**1,530**	922
61-90 days	**596**	250
Over 90 days	**1,952**	1,269
	23,450	24,864

Included in trade and other receivables at March 31, 2017 are $6,113 (December 31, 2016 - $5,412) 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:

	March 31, 2017	December 31, 2016
	$	$
Provision, beginning of year	**193**	118
Provision for receivables impairment	**53**	75
Provision, end of year	**246**	193

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 March 31, 2017:

	Total	2017	2018-2019	2020-2021	Thereafter
	$	$	$	$	$
Trade payables and other amounts	**24,644**	24,644	—	—	—
Second lien senior secured notes	**25,894**	—	25,894	—	—
Convertible borrowings	**27,500**	27,500	—	—	—
Revolving Facility	**33,252**	—	33,252	—	—
Finance leases	**343**	178	154	11	—
Interest payments on borrowings	**3,432**	2,398	1,034	—	—
Operating leases	**8,490**	2,002	3,812	1,955	721
	123,555	**56,722**	**64,146**	**1,966**	**721**

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 March 31, 2017, a 1% change in the variable interest rates on the average balances for the three month period ended March 31, 2017 would have resulted in an annualized change in interest expense of approximately $325 (December 31, 2016 - $314).

Currency Risk
Virtually all of the Company's transactions are denominated in Canadian dollars. At March 31, 2017 and December 31, 2016, 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 83,413,545 common shares or approximately 41% of the issued and outstanding common shares of the Company as at March 31, 2017. This ownership percentage disclosed assumes the issuance of 5,521,025 escrowed and restricted shares in the total common shares considered to be outstanding.

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 month period ended March 31, 2017 are $30 (2016 - $30) of consulting fees related to this arrangement.

For the three month period ended March 31, 2017, the Company incurred $51 (2016 - $75) in interest on related party amounts.

Included in trade payables and other amounts at March 31, 2017 are $398 (December 31, 2016 - $76) due to GHIS 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 month period ended March 31, 2017 was $37 (2016 - $33).

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 month period ended March 31, 2017, the Company recorded an expense of $nil (2016 - $30) related to the fee owed to the corporation. Included in trade payables and other amounts at March 31, 2017 are $nil (December 31, 2016 - $nil) due to the corporation related to these services.

Related party loans
On March 2, 2017, pursuant to the terms of the instrument, the Company early converted the remaining outstanding balance of the Jamon promissory note into common shares (note 8). In consideration for early conversion, the Company issued 1,400,000 warrants and additional interest to the original maturity date. Prior to early conversion, the Jamon promissory note had a principal balance of $5,000 bearing interest at 6% and was due 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 $60 (December 31, 2016 - $66) has been included in trade and other receivables.

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

12. 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. 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 common shares were treated as share-based compensation for accounting purposes, and an expense of $nil and $216 was recorded for the three month periods ended March 31, 2017 and 2016, respectively. As of January 1, 2016, all of the restricted shares have been released (200,000 common shares released on January 1, 2013 and 2014, and 300,000 common shares released on January 1, 2015 and 2016).

13. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	For the three month periods ended March 31,	
	2017	2016 (Note 17)
	$	$
Employee costs	**4,460**	4,490
Other operating expenses	**5,258**	5,709
Corporate office expenses	**1,623**	1,629
Depreciation and amortization	**1,848**	2,997
Share-based compensation expense	**324**	261
Loss (gain) on disposal of property and equipment	**25**	(1)
Total	**13,538**	15,085

14. Transaction, Restructuring and Other Costs

Transaction and restructuring costs, including legal, consulting and due diligence fees directly related to business combinations or business restructuring, and costs associated with new customer contract implementation, 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.

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

14. Transaction, Restructuring and Other Costs - continued

Transaction, restructuring and other costs for the three month periods ended March 31, 2017 and 2016 consist of the following:

	For the three month periods ended March 31,	
	2017	2016
	$	$
Transaction and start-up costs	**181**	35
Restructuring and other costs	**1,475**	744
Total	**1,656**	779

At March 31, 2017, the Company had accrued liabilities from continuing operations related to severance of $746 (December 31, 2016 - $477) included in trade and other payables consisting of the following:

	Severance $
Balance at December 31, 2016	**477**
Additions	**340**
Payments	**(71)**
Balance at March 31, 2017	**746**

15. Interest Expense

Interest expense for the three month periods ended March 31, 2017 and 2016 is comprised of the following:

	For the three month periods ended March 31,	
	2017	2016
	$	$
Interest on Revolving Facility and second lien senior secured notes	**873**	2,893
Amortization of loan arrangement fees	**40**	1,544
Interest on promissory note	**50**	76
Accretion of promissory note discounts	**97**	119
Interest on capital leases	**11**	8
Interest on convertible debt	**561**	830
Accretion on convertible debt	**921**	1,482
Accretion on preferred partnership units	**—**	805
Loss on repayment of borrowings	**1,268**	—
Interest expense before distributions for preferred partnership units	**3,821**	7,757
Distributions for preferred partnership units	**—**	730
Total interest expense	**3,821**	8,487
Interest income	**—**	(276)
Net interest expense	**3,821**	8,211

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

16. Segmented Information

The Company presents two reportable operating segments based on the various products and services that it offers, as follows: (i) Specialty Pharmacy and (ii) 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 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 March 31, 2017			
	Specialty Pharmacy $	**Surgical and Medical Centres $**	**Corporate $**	**Total $**
Revenue	32,907	10,656	—	**43,563**
Depreciation and amortization	1,193	464	191	**1,848**
Income (loss) before interest expense, income taxes and discontinued operations [2]	2,412	740	(1,675)	**1,477**
Interest expense	—	—	3,821	**3,821**

[2] Included in the income before interest expense, income taxes and discontinued operations for the Corporate segment is a non-cash gain of $958 (2016 - $287 loss) from the net change in the fair value of the contingent consideration liability for the year, $346 (2016 - $473) in transaction and restructuring costs and a non-cash loss of $149 (2016 - $46 gain) from the change in fair value of derivative financial instruments.

	For the three month period ended March 31, 2016 (restated)			
	Specialty Pharmacy $	**Surgical and Medical Centres $**	**Corporate $**	**Total $**
Revenue	30,303	10,391	—	**40,694**
Depreciation and amortization	2,233	637	127	**2,997**
Income (loss) before interest expense, income taxes and discontinued operations	1,047	343	(2,731)	**(1,341)**
Interest expense	—	—	8,211	**8,211**

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

17. 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, Community Advantage Rehabilitation ("CAR"), Active Health Services Ltd. ("Active") and the Company's Medical Assessments operations.
- **Surgical and Medical Centres** discontinued operations includes the Sarnia surgical centre operations, Sleep Clinic, Windsor Endoscopy Center and London Scoping Centre Ltd. .

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.

If certain proposed new Ontario pension legislation arrangements are not put in place until after June 1, 2017, the contingent consideration will result in the Company being 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 business 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	**(1,037)**
Total gain	**79,303**

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

17. Discontinued Operations - continued

Results from Discontinued Operations

There are no results from discontinued operations for the three month period ended March 31, 2017. The results from discontinued operations for the three month period ended March 31, 2016 are as follows:

	For three month period ended March 31, 2016 (restated)		
	Physiotherapy, Rehabilitation and Assessments $	**Surgical and Medical Centres $**	**Total $**
Revenues	—	281	**281**
Expenses	—	338	**338**
Depreciation and amortization	—	42	**42**
Loss on sale of businesses [3]	1,037	—	**1,037**
Loss before income taxes from discontinued operations	(1,037)	(99)	**(1,136)**
Income tax recovery	—	10	**10**
Net loss from discontinued operations	(1,037)	(109)	**(1,146)**

[3] Includes $1,037 for final working capital settlement following the 2015 Sale Transaction

Excluded from net loss from discontinued operations is a loss attributable to non-controlling interests of $28 for the three month period ended March 31, 2016.

The cash flows from discontinued operations for the three month periods ended March 31, 2017 and 2016 are as follows:

	For the three month periods ended March 31,	
	2017	2016
	$	$
Operating cash flows	**—**	(57)
Investing cash flows	**—**	—
Financing cash flows	**—**	—
Total Cash Flows	**—**	(57)

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

18. 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.

19. 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 March 31,	
	2017	2016
	$	$
Trade and other receivables	**294**	582
Inventories	**100**	(351)
Prepaid expenses	**(122)**	(589)
Trade payables and other amounts	**(1,233)**	(8,537)
Total	**(961)**	(8,895)