



Centric Health

Your Care. Our Focus.

Management's Discussion and Analysis
For the years ended December 31, 2018 and 2017

Dated: March 27, 2019

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Management's Discussion and Analysis

(For the years ended December 31, 2018 and 2017)

Certain statements in this Management's Discussion and Analysis ("MD&A") constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include, but are not limited to, statements made under the headings "*Strategic Priorities*", "*Growth Strategies and Outlook*" and "*Risks and Uncertainties*" and other statements concerning Centric Health Corporation's, ("Centric Health", "Centric" or the "Company") 2019 objectives, strategies to achieve those objectives, Adjusted EBITDA Margin projections, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. Factors that could cause such differences include the Company's liquidity and capital requirements, government regulation and funding, the highly competitive nature of the Company's industry, reliance on contracts with key customers and other such risk factors described from time to time in the reports and disclosure documents filed by the Company with Canadian securities regulatory agencies and commissions. This list is not exhaustive of the factors that may impact the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The factors underlying current expectations are dynamic and subject to change.

Although the forward-looking statements contained in this MD&A are based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. Other than specifically required by applicable laws, we are under no obligation and we expressly disclaim any such obligation to update or alter the forward-looking statements whether as a result of new information, future events or otherwise except as may be required by law. These forward looking statements are made as of the date of this MD&A.

The following is a discussion of the consolidated statement of financial position and the consolidated statement of income and comprehensive income of the Company for the years ended December 31, 2018 and 2017 and of certain factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. The MD&A should be read in conjunction with the consolidated financial statements and notes thereto for the years ended December 31, 2018 and 2017. The consolidated financial statements for the years ended December 31, 2018 and 2017 are prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's significant accounting policies are summarized in detail in note 2 and note 1, respectively, of the consolidated financial statements for the years ended December 31, 2018 and 2017. Unless otherwise specified, amounts reported in this MD&A are in millions, except shares and per share amounts and percentages. The following MD&A is presented as of March 27, 2019. All amounts are disclosed in Canadian dollars. Additional information about the Company, including the most recently filed Annual Information Form, is available on www.sedar.com.

Our Business

Centric Health's vision is to be the leading provider of pharmacy and other healthcare services to Canadian seniors.

The Company is one of Canada's leading, and most trusted providers of comprehensive Specialty Pharmacy services and solutions to seniors. We operate a large national network of pharmacy fulfilment centres that deliver high-volume solutions for the cost-effective supply of chronic medication and other specialty clinical pharmacy services, serving more than 30,000 residents in over 450 seniors communities (long-term care, retirement homes, and assisted living facilities) nationally.

With services that address the growing demand within the Canadian healthcare system, Centric Health's unparalleled national care delivery platform provides significant potential for future expansion and growth.

Our long-term strategy focuses on delivering organic growth, pursuing geographic expansion and M&A opportunities, and broadening our portfolio of service offerings in the seniors healthcare space.

Our dedicated team and organizational culture has an unwavering commitment to achieving the highest service and ethical standards and delivering a superior quality of care to seniors. ***This is our unique brand of care.***

Your Care. Our Focus.



15
fulfilment centres

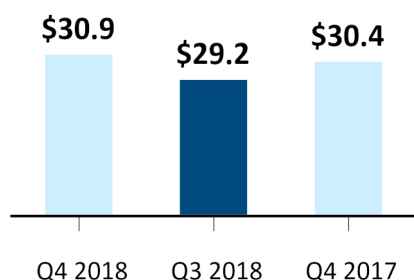
>450
long-term care and
retirement homes

>30,000
beds

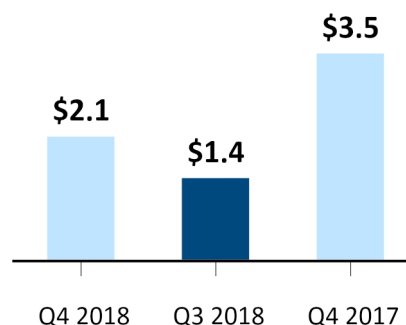
>900,000
prescriptions monthly

Highlights for the Fourth Quarter and the Full Year ended December 31, 2018

Specialty Pharmacy Quarterly Revenue (\$millions)



Specialty Pharmacy Quarterly Adjusted EBITDA (\$millions)



Highlights for the Fourth Quarter of 2018

(All comparative figures are for the fourth quarter of 2017)

- **Continued execution of new strategic direction to establish the Company as the leading provider of pharmacy and other healthcare services to Canadian seniors**
 - Conducted strategic review of existing businesses and assets that may not fit with the new strategic direction;
 - Signed a definitive agreement for the divestiture of the Company's retail pharmacy operation located in Medicine Hat, AB on December 27, 2018, which closed on February 14, 2019; and
 - The December 31, 2018 financial statements and MD&A have been presented with the Medicine Hat, AB retail pharmacy, the previously divested retail pharmacy in Richmond, BC, and the Company's Surgical and Medical Centres segment included in discontinued operations as they have been classified as held for sale, as required under IFRS.
- **Revenue from continuing operations in Specialty Pharmacy increased to \$30.9 million from \$30.4 million**
 - Despite the regulatory changes that occurred during the second quarter of 2018 which significantly impacted revenue, the Company achieved revenue growth of 1.6%, earning \$30.9 million in the fourth quarter of 2018 compared to \$30.4 million in the prior year. This growth was accomplished through new contract wins that resulted in a higher number of average beds serviced during the quarter, as well as the impact of Business Re-Engineering Plan initiatives implemented throughout 2018.
- **Adjusted EBITDA¹ from continuing operations in Specialty Pharmacy declined 38.5% to \$2.1 million from \$3.5 million**
 - Adjusted EBITDA declined, as expected, to \$2.1 million, primarily driven by the impact of the regulatory changes that occurred during the second quarter of 2018, which were partially offset by initiatives under the Business Re-Engineering Plan and an increase in the average number of beds serviced throughout the quarter; and
 - Specialty Pharmacy Adjusted EBITDA from continuing operations increased by 49.5% compared to the third quarter of 2018 primarily due to the impact of the Business Re-Engineering Plan initiatives completed in the second half of 2018 and beds from new contract wins that were onboarded throughout the third and fourth quarters of 2018.
- **Successful completion of Business Re-Engineering Plan**
 - Completed the previously announced Business Re-Engineering Plan, a transformational initiative that reduced labour costs, improved operational efficiencies, increased revenue, and established a truly national operation platform;
 - Business Re-Engineering Plan was fully executed with all financial targets achieved; and
 - Adjusted EBITDA Margins in the first quarter of 2019 are expected to be approximately 9%, and are anticipated to increase to double-digit margins thereafter.

¹ Defined and calculated in Reconciliation of Non-IFRS Measures

- **Added new customers and increased beds serviced**

- Onboarding of new long-term contracts with multi-site regional home operators located in Ontario and British Columbia throughout the second half of 2018 resulted in an increase of more than 2,000 beds serviced, on average, during the fourth quarter of 2018 compared to the same period in the prior year;
- Additional beds already under contract are expected to be onboarded in the first quarter of 2019 that will increase the overall number of beds serviced in Specialty Pharmacy by approximately 1,500 beds to over 31,000 beds nationally; and
- Newly serviced beds will leverage existing operational infrastructure and capacities within each respective province.

- **Continued execution of seniors medical cannabis strategy through strategic partnership with Canopy Growth Corporation ("Canopy")**

- Completed joint implementation plan with Canopy for the provision of medical cannabis to seniors living in the homes serviced by the Company;
- Training and education completed for all internal clinical pharmacists;
- Training and education sessions for the prescribers, clinicians, residents and their families is currently ongoing; and
- Deliveries to residents commenced during the first quarter of 2019.

- **Strengthened leadership team**

- Nina Freier joined the Company as Chief Human Resources Officer from her previous role as Vice President, Human Resources at Sienna Senior Living;
- Andrew Mok was promoted to the position of Interim Chief Financial Officer;
- Mitchell Sinclair joined the Company as Vice President of Business Development from his previous role as Vice President of Sales at Cardinal Health;
- Ryan Stempfle was promoted to the position of Vice President and General Manager, Western Canada;
- Completed broader reorganization and strengthening of Specialty Pharmacy management team; and
- Leslie Cho, Chief Financial Officer and Tim Matthews, Chief Operating Officer for Specialty Pharmacy left the Company during the fourth quarter of 2018.

Highlights subsequent to quarter-end

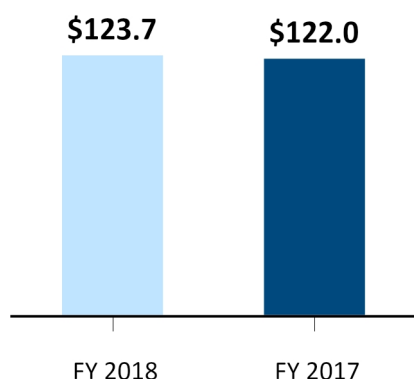
- **Further advanced deleveraging strategy by completing private placement of convertible preferred shares**

- Issued 30,000,000 convertible preferred shares of the Company on March 12, 2019 at an issue price of \$0.40 per share for gross proceeds of \$12.0 million to funds and accounts managed by Ewing Morris & Co. Investment Partners Ltd. ("Ewing Morris");
- Each convertible preferred share is entitled to a cumulative annual cash dividend of 9% per annum, payable in arrears on a semi-annual basis;
- Each convertible preferred share is convertible into common shares on a one-to-one basis at the holder's option and redeemable by the Company in certain circumstances;
- The convertible preferred shares mature on March 13, 2024 at which time each outstanding convertible preferred share will be redeemed by the Company for \$0.40 plus any unpaid dividends;
- The proceeds of the convertible preferred share issuance will be used by the Company to repay senior indebtedness; and
- On March 27, 2019, the Company announced that John Ewing, Co-President and Chief Investment Officer of Ewing Morris, joined the Company's Board of Directors.

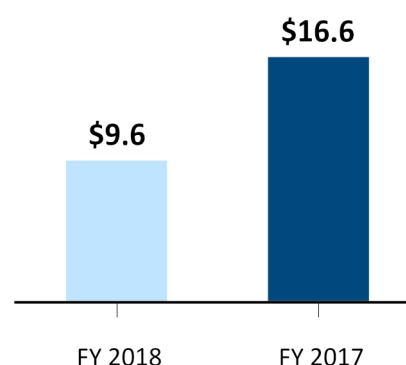
- **Reached an arrangement with senior and subordinated lenders to facilitate covenant compliance through the transition period as the Company executes on its strategic direction**

- Received a waiver for all financial covenants for the fourth quarter of 2018 and first quarter of 2019;
- Established revised financial covenants based on financial targets derived from the results of a review by an independent third-party and approved by the lenders; and
- Revised timing of interest payments on senior and subordinated debt facilities with a portion of accrued interest owing on the subordinated debt facilities being paid from the proceeds of the convertible preferred share issuance and the remaining accrued interest and fees to be settled through the proceeds from future divestiture activities.

Specialty Pharmacy Annual Revenue (\$millions)



Specialty Pharmacy Annual Adjusted EBITDA (\$millions)



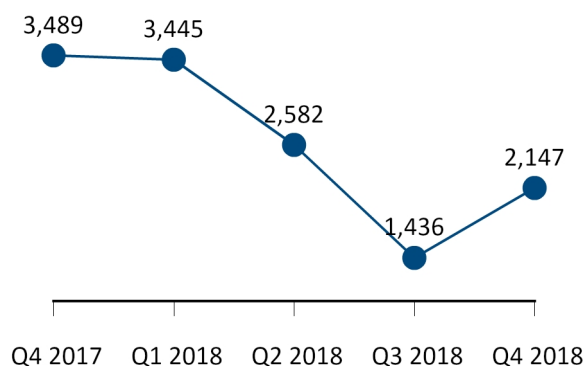
Highlights for the Full Year 2018

(All comparative figures are for the full year 2017)

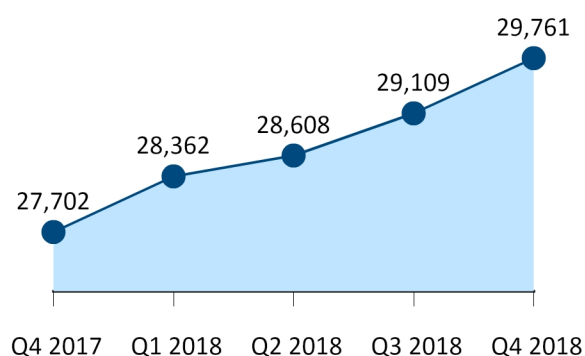
- **Specialty Pharmacy Revenue from continuing operations increased to \$123.7 million from \$122.0 million**
 - Revenue grew to \$123.7 million compared to \$122.0 million in the prior year, driven by an increase in the average number of beds serviced; and
 - Revenue growth was achieved despite the impact of previously disclosed regulatory changes, which reduced Specialty Pharmacy revenue by \$5.0 million for the year ended December 31, 2018 compared to the prior year.
- **Specialty Pharmacy Adjusted EBITDA from continuing operations declined 41.9% to \$9.6 million from \$16.6 million**
 - Adjusted EBITDA declined, as expected, to \$9.6 million primarily driven by gross margin compression as a result of the previously announced regulatory changes and changes in bed mix compared to the prior year which were partially offset by an increase in the average number of beds serviced and Business Re-Engineering Plan initiatives that were implemented throughout the year; and
 - Specialty Pharmacy Adjusted EBITDA margin from continuing operations decreased to 7.8% from 13.6% in the same period in the prior year.
- **Corporate costs decreased by 1.9% to \$5.6 million from \$5.7 million**
 - Corporate costs remained in line with the Company's target of less than 4% of total revenue (including discontinued operations).

Key Performance Metrics - Fourth Quarter of 2018

Specialty Pharmacy Adjusted EBITDA (\$ thousands)



Average Beds Serviced



The Company uses a number of financial and non-financial metrics to assess its performance. The table below summarizes our most relevant metrics. The full results and discussion of each metric are subsequently presented in this report.

Growth	Total Revenue	●
	Beds Serviced	●
Profitability	Adjusted EBITDA	●
	Adjusted EBITDA Margin	●
Quality	Reported incidents	●
Liquidity	Cash Flows from Operations	●
	Net Debt to Adjusted EBITDA	●
	Free Cash Flow	●

● = Favourable ● = Stable ● = Unfavourable

Strategic Priorities

1. Reduce debt and strengthen balance sheet

- Reduction of total debt to Adjusted EBITDA over the medium term
- Utilize effective working capital management to improve cash flows

2. Grow organically

- Leverage the Company's value proposition with seniors to win new contracts
- Expand scope of services to utilize existing customer base and attract new customers
- Maximize scale and efficiencies at existing facilities

3. Make strategic acquisitions

- Pursue opportunities that will strengthen value proposition and expand national platform, achieving operational efficiencies through increased scale and consolidation of acquisitions
- Apply strict criteria to ensure alignment, accretion and return on invested capital

4. Improve business operations

- Optimize labour models and rely on innovative technology and economies of scale to drive efficiencies
- Maintain standards of exceptional care
- Manage costs at corporate office to ensure a lean shared service model and maximize overall profitability
- Enhance quality reporting metrics that demonstrate value to customers with emphasis on best healthcare outcomes

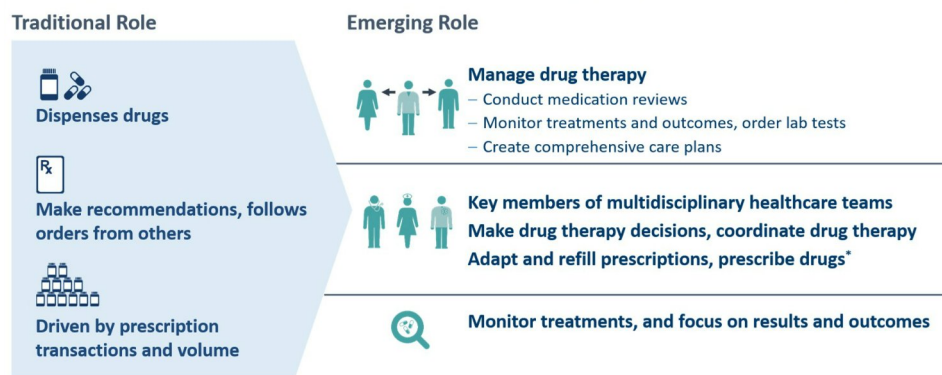
Growth Strategies and Outlook

Centric Health is pursuing a multi-faceted growth strategy to increase revenue and expand Adjusted EBITDA margins through the diversification of its offerings and leveraging its best-in-class platform to offer the highest levels of service to more Canadians, with a focus on the following areas:

- Maximize utilization of its existing infrastructure through new RFP wins with local, regional and national seniors community operators;
- Expand clinical capabilities to strengthen its value proposition to its customers and drive new, higher margin revenue streams;
- Execute on strategic acquisition opportunities to expand its network and geographic coverage and benefit from economies of scale;
- Increase product and service offerings to seniors; and
- Reduce cost structure and benefit from economies of scale.

Given the public funding model and limited payor base for its Specialty Pharmacy services, the Company is actively pursuing strategies to mitigate its exposure to government regulatory changes and geographic concentration by diversifying its product and service offerings, entering into new geographies and expanding its payor base.

Clinical pharmacy and pharmacovigilance increasingly important in seniors pharmacy

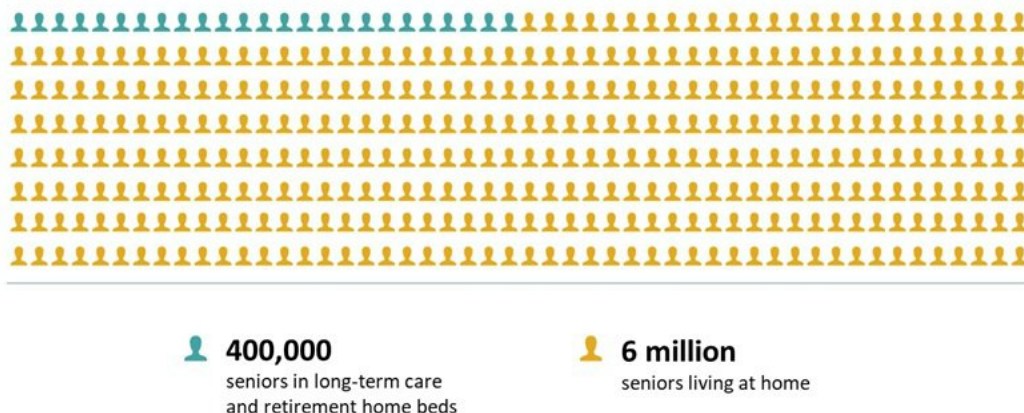


* All pharmacists in Alberta are authorized to adapt and refill prescriptions. Pharmacists must receive a separate authorization before being allowed to initiate prescriptions.

To meet the growing demands of the Canadian healthcare system, the scope of practice of pharmacists continues to broaden, presenting an opportunity for the Company to expand its service offerings.

A longer term opportunity is also available through serving the needs of seniors remaining in their homes.

Capabilities and infrastructure to address the seniors-at-home market



With six million seniors already currently living at home, coupled with the increased life expectancy of Canadians, a significant favourable demographic trend exists for Specialty Pharmacy.

To pursue the opportunities provided by these demographic trends, and in line with its desire to expand its product and service offerings to seniors, the Company signed a strategic distribution and supply agreement and made an accompanying strategic investment in AceAge Inc. ("AceAge") for its home-based automated drug delivery appliance, Karie.

Designed for individuals taking multiple medications, particularly seniors living independently or without full-time care, Karie is an innovative device that simplifies complex medication regimes by automatically delivering prescription drugs, in the correct dosage and at the right time. As the device is completely compatible with the Company's automated dispensing and packaging systems, this partnership will provide the Company with opportunities for additional Specialty Pharmacy service offerings to seniors living in the Company's contracted seniors communities as well as those living in their own homes.

To further enhance and diversify its service offerings, the Company has also developed a medical cannabis strategy within the seniors communities that it serves. The Company is uniquely positioned through its presence in long-term care and retirement homes, as well as its expansion to seniors currently living at home, to provide a comprehensive service that addresses the complexities of medical cannabis use by seniors. The Company intends to partner with home operators and leverage its strategic partnership with Canopy to achieve the best possible solutions for the seniors that it serves. The Company has applied for a cannabis sales-only license in Canada, and through Canopy, will be able to facilitate the supply of medical cannabis to seniors before and after receipt of the license.

In pursuit of reductions to its cost structure and increases in operational efficiency, the Company has partnered with Think Research Corporation to digitize the Company's medication review program, which will eliminate paperwork duplication in the pharmacy clinical review process while increasing seniors' safety through access to real-time information and data analytics.

Selected Financial Information

The following selected financial information as at and for the year ended December 31, 2018, 2017, and 2016, have been derived from the consolidated financial statements and should be read in conjunction with those financial statements and related notes. The results of acquisitions are added from their respective dates of completion. Non-IFRS measures are defined and reconciled in the Reconciliation of Non-IFRS Measures section.

	For the three month periods ended December 31,			For the years ended December 31,		
	2018	2017	2016	2018	2017	2016
(thousands of Canadian Dollars)	\$	\$	\$	\$	\$	\$
Revenue from continuing operations	30,929	30,427	31,085	123,742	122,009	124,481
Income (loss) from continuing operations	(4,870)	(1,847)	2,688	(10,952)	(3,569)	(5,283)
Income (loss) from continuing operations before interest expense and income taxes	(5,316)	2,595	208	(30,329)	3,012	(10,789)
EBITDA² from continuing operations	(3,343)	4,572	2,085	(22,731)	10,464	(1,815)
Adjusted EBITDA² from continuing operations	633	2,329	3,263	4,040	10,874	10,675
Per share - Basic and diluted ³	\$0.003	\$0.01	\$0.02	\$0.02	\$0.06	\$0.06
Adjusted EBITDA Margin from continuing operations	2.0%	7.7%	10.5%	3.3%	8.9%	8.6%
Adjusted EBITDA²	1,943	4,058	4,363	10,725	17,514	15,466
Per share - Basic and diluted ³	\$0.01	\$0.02	\$0.03	\$0.05	\$0.09	\$0.09
Adjusted EBITDA Margin	4.7%	9.6%	10.3%	6.3%	10.4%	9.2%
Net income (loss)	(7,678)	3,301	(1,746)	(31,093)	2,279	(19,806)
Per share - Basic and diluted ³	(\$0.04)	\$0.02	(\$0.01)	(\$0.15)	\$0.01	(\$0.12)
Cash provided by (used in) operations	(1,574)	5,440	2,982	6,592	16,073	1,700
Total assets	122,593	144,511	155,087	122,593	144,511	155,087
Total liabilities	130,246	124,379	152,142	130,246	124,379	152,142

² Defined in Reconciliation of Non-IFRS Measures

³ Earnings per share is based on the earnings attributable to shareholders of Centric Health Corporation.

Results of Continuing Operations for the Three Month Periods and the Years Ended December 31, 2018 and 2017

Operating and Other Expenses as a Percentage of Revenue

	For the three month periods ended December 31,				For the years ended December 31,			
	2018		2017		2018		2017	
\$ millions	\$	%	\$	%	\$	%	\$	%
Revenue	30.9 ↑	100 %	30.4	100 %	123.7 ↑	100 %	122.0	100 %
Operating expenses:								
Healthcare services and supplies	22.4 ↑	72.5 %	21.1	69.4 %	88.6 ↑	71.6 %	81.3	66.6 %
Employee costs	2.9 ↓	9.4 %	3.1	10.2 %	11.9 ↓	9.6 %	12.4	10.2 %
Other operating expenses	3.5 ↑	11.3 %	2.9	9.5 %	13.6 ↑	11.0 %	11.7	9.6 %
Corporate office expenses	1.5 ↑	4.9 %	1.2	3.9 %	5.6 ↓	4.5 %	5.8	4.8 %
Total operating expenses	30.3 ↑	98.1 %	28.3	93.1 %	119.7 ↑	96.8 %	111.2	91.1 %
Other expenses:								
Depreciation and amortization	2.0 ↑	6.5 %	1.8	5.9 %	7.6 ↑	6.1 %	7.3	6.0 %
Share-based compensation expense	1.9 ↑	6.1 %	0.3	1.0 %	3.0 ↑	2.4 %	0.9	0.7 %
Transactions, restructuring and other costs	1.7 ↓	5.5 %	1.9	6.3 %	4.4 ↓	3.6 %	6.0	4.9 %
Goodwill impairment	—	— %	—	— %	18.5 ↑	15.0 %	—	— %
Net interest expense	2.1 ↑	6.8 %	1.5	4.9 %	7.4 ↓	6.0 %	9.9	8.1 %
Income tax expense (recovery)	1.0 ↑	3.2 %	(1.5)	(4.9) %	(3.3) ↓	(2.7) %	(2.5)	(2.0) %
Total other expenses	8.7 ↑	28.2 %	4.0	13.2 %	37.6 ↑	30.4 %	21.6	17.7 %
Adjusted EBITDA	0.6 ↓	2.0 %	2.3	7.7 %	4.0 ↓	3.3 %	10.9	8.9 %

- Revenue from continuing operations for the three month period and year ended December 31, 2018 increased by 1.6% to \$30.9 million from \$30.4 million and by 1.4% to \$123.7 million from \$122.0 million, respectively, for the same periods in the prior year.
- Revenue increased primarily as a result of growth driven by an increase in the average number of beds serviced and revenue initiatives implemented as part of the Company's Business Re-Engineering Plan.
- Going forward, the Company expects continued organic growth in revenue; however, the timing and cycles of the contract procurement process (and time required to realize revenue from formal procurement RFP processes), could result in some fluctuation of organic growth rates over time.
- Operating expenses consist of four major components:
 - healthcare services and supplies, which includes the salaries and benefits of employees directly involved in the provision of services, practitioner consultant fees, the cost of medical supplies and the cost of pharmaceuticals sold;
 - employee costs, which includes salaries and benefits of employees that are not directly involved in the provision of services;
 - other operating expenses, which includes occupancy costs, communication, insurance, advertising and promotion and administrative expenses incurred at the operational level; and,
 - corporate office expenses, which includes shared service costs, salaries and benefits, occupancy costs, communication, advertising and promotion, insurance, public company costs, board of directors and sub-committee fees and other costs of the corporate office.
- Overall operating expenses for the three month period and year ended December 31, 2018 increased by 7.3% to \$30.3 million as compared to \$28.3 million and by 7.6% to \$119.7 million as compared to \$111.3 million, respectively, for the same periods in the prior year.
- Cost of healthcare services and supplies for the three month period and year ended December 31, 2018 increased by 6.3% to \$22.4 million as compared to \$21.1 million and by 9.0% to \$88.6 million as compared to

\$81.3 million, respectively, for the same periods in the prior year, largely due to increased pharmaceutical costs as a result of the increased number of beds serviced, partially offset by labour savings achieved through the Business Re-Engineering Plan.

- Employee expenses for the three month period and year ended December 31, 2018 decreased by 6.8% to \$2.9 million as compared to \$3.1 million and by 4.3% to \$11.9 million as compared to \$12.4 million, respectively, for the same periods in the prior year, largely due to labour efficiencies driven by the Business Re-Engineering Plan initiatives.
- Corporate office expenses for the three month period and year ended December 31, 2018 increased by 30.4% to \$1.5 million as compared to \$1.2 million and decreased by 4.5% to \$5.6 million as compared to \$5.8 million, respectively, for the same periods in the prior year. The increase in the quarter compared to the same period in the prior year was primarily due to executive vacancies and the reversal of accrued performance bonuses in the prior year.

As there have been timing differences between the impact of the regulatory changes and the execution of the Company's Business Re-Engineering Plan, certain cost savings were not fully realized during the year. As these initiatives have been implemented by the end of the year, the benefit of these cost savings initiatives will be fully realized throughout 2019.

Transaction, restructuring and other costs includes 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, start-up costs for new initiatives and legal and consulting costs for business restructuring.

- Transaction, restructuring and other costs for the three month period and year ended December 31, 2018

decreased by 13.4% to \$1.7 million as compared to \$1.9 million and by 27.1% to \$4.4 million as compared to \$6.0 million, respectively, for the same periods in the prior year.

Interest expense for the three month period and year ended December 31, 2018 was \$2.1 million as compared to \$1.5 million and \$7.4 million as compared to \$9.9 million, respectively, for the comparable periods in the prior year. Interest expense relates to the Company's borrowings and capital leases. Interest expense excluding losses and accretion for the three month period and year ended December 31, 2018 was \$2.0 million as compared to \$1.4 million and \$6.7 million as compared to \$5.8 million, respectively, in the same periods in the prior year.

Income taxes for the three month period and year ended December 31, 2018 was an expense of \$1.0 million and a recovery of \$3.3 million as compared to a recovery of \$1.5 million and a recovery of \$2.5 million, respectively, for the comparable periods in the prior year. As at December 31, 2018 and December 31, 2017, the Company had gross loss carry forwards amounting to \$51.4 million and \$43.1 million, respectively, that can be carried forward against future taxable income based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible. The Company did not recognize deferred tax assets of \$9.6 million (\$7.5 million as of December 31, 2017) with respect to these losses.

Revenue and Adjusted EBITDA

This section presents the results of operations for the three month periods and years ended December 31, 2018 and 2017 for the Company's sole operating segment, Specialty Pharmacy, as well as Corporate office costs.

The support services provided through the corporate office largely support the operations of the Company. Certain

amounts of these costs have been allocated to Specialty Pharmacy and operations included in discontinued operations based on the extent of corporate management's involvement in the operations of the those businesses during the period.

For the three month periods ended December 31,	Revenue		Adjusted EBITDA			
	2018	2017	2018		2017	
	\$	\$	\$	%	\$	%
(thousands of Canadian Dollars)						
Specialty Pharmacy	30,929	30,427	2,147	6.9	3,489	11.5
Corporate	—	—	(1,514)	—	(1,160)	—
Total	30,929	30,427	633	2.0	2,329	7.7

For the years ended December 31,	Revenue		Adjusted EBITDA			
	2018	2017	2018		2017	
	\$	\$	\$	%	\$	%
(thousands of Canadian Dollars)						
Specialty Pharmacy	123,742	122,009	9,611	7.8	16,555	13.6
Corporate	—	—	(5,571)	—	(5,681)	—
Total	123,742	122,009	4,040	3.3	10,874	8.9

Specialty Pharmacy

Three month period ended December 31, 2018:

- Revenue increased 1.6% to \$30.9 million from \$30.4 million.
- Adjusted EBITDA decreased 38.5% to \$2.1 million from \$3.5 million and Adjusted EBITDA margin decreased to 6.9% from 11.5%.

The decrease in Adjusted EBITDA for the three month period ended December 31, 2018 was attributable to the following factors:

- Margin pressure due to provincial regulatory changes that resulted in, amongst other things, dispensing fee and dispensing fee frequency reductions in Alberta as well as the generic pharmaceutical pricing changes that have been previously disclosed;
- Higher operating costs compared to prior year due to an increased average number of beds serviced and increased costs associated with servicing newly onboarded contracts;
- Changes in the composition of beds serviced across the country, as funding models vary by geography and between types of beds such as long-term care and retirement. While the average beds serviced increased compared to the same period in the prior year, a larger proportion of lower margin generating beds were serviced in the three months ended December 31, 2018 compared to the same period in the prior year; and

- The Business Re-Engineering Plan initiatives partially offset these margin pressures as a number of initiatives were not completed until midway through the quarter.

Year ended December 31, 2018:

- Revenue increased by 1.4% to \$123.7 million from \$122.0 million.
- Adjusted EBITDA decreased 41.9% to \$9.6 million from \$16.6 million and Adjusted EBITDA margin decreased to 7.8% from 13.6%.

For the year ended December 31, 2018, revenue growth was driven primarily from an increase in the average number of beds serviced. This growth in revenue was partially offset by the previously mentioned regulatory changes and change in the composition of beds. The impact of the regulatory changes and change in bed composition also resulted in the decline in Adjusted EBITDA, as the offset from the full impact of the Business Re-Engineering Plan initiatives was not realized during the year.

Corporate Office

Corporate office expenses increased for the three month period ended December 31, 2018 compared to the same period in the prior year due to labour savings incurred in the prior year as a result of vacancies and the reversal of accrued performance bonuses which were not accrued in the current year. For the year ended December 31, 2018, corporate office expenses were consistent with the prior year.

Discontinued Operations

During the period ended December 31, 2018, the Company disposed of the operating assets of one of its retail pharmacy operations in Richmond, BC. The Company has included the results of this operation as part of discontinued operations on the consolidated statement of income and comprehensive income. In addition, as required under IFRS, the Company classified its former retail pharmacy in Medicine Hat, AB that was divested on February 14, 2019 as well as its former Surgical and Medical Centres segment as assets held for sale. The current and prior year results of these businesses have been presented as discontinued operations. Revenue and Adjusted EBITDA from discontinued operations were \$10.3 million and \$1.3 million, for the three month period ended December 31, 2018, respectively, and \$46.0 million and \$6.7 million, for the year ended December 31, 2018, respectively.

Liquidity and Capital Resources

New Credit Facilities

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 \$113.5 million, which closed on May 30, 2017. The new credit facilities are made up of \$100 million in senior secured facilities (the "Senior Facilities") and \$13.5 million in a secured subordinated term credit facility (the "Subordinated Facility") (collectively, the "New Credit Facilities"). Subject to satisfaction of certain conditions, the Company may increase the Senior Facilities by an additional \$25 million for total Senior Facilities of \$125 million.

All of the New Credit Facilities are guaranteed by the Company's subsidiaries and secured by the assets of the Company and each of its subsidiaries.

The Senior Facilities are structured as follows: (i) a revolving credit facility in the amount of up to \$20 million, including a swingline of up to \$3 million (the "New Revolving Facility"), (ii) a non-revolving term loan facility in the amount of up to \$60 million (the "Term Facility"), and (iii) a limited revolving acquisition and capital expenditure term loan facility in the amount of up to \$20 million to be available in multiple draws (the "Acquisition Facility"). Subject to satisfaction of certain conditions, the New Revolving Facility may be increased by an additional \$5 million and the acquisition and capital expenditure term loan facility may be increased by up to an additional \$20 million. 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 a range between 0.50% to 3.50% over the Canadian prime rate for prime rate loans and 2.00% to 5.00% over CDOR for Bankers' Acceptances and a range of 0.40% to 1.05% for standby fees for amounts not borrowed.

The Subordinated Facility consists of a term loan to be fully drawn in one advance for a total of \$13.5 million, which accrues interest at a rate of 9% per annum. The Subordinated Facility matures five and a half years after the date of the agreement. On June 23, 2017, the Company prepaid \$2 million of principal balance along with a \$20 thousand cash consent fee in accordance with the Subordinated Facility agreement.

Going Concern and Liquidity Risk

On November 10, 2017, the Company amended its agreements for the New Credit Facilities to increase the threshold on its debt to trailing twelve-month EBITDA covenants in order to mitigate potential future breaches of the financial covenants in the first half of 2018. On March 20, 2018 and June 29, 2018, the Company further amended its agreements for the New Credit Facilities to increase the threshold on its debt to trailing twelve-month EBITDA covenant and decrease the threshold on its fixed-charge coverage ratio covenant. The amendments were made to the fourth quarter of 2017 and the first three quarters of 2018 due to non-compliance in those quarters due to timing differences in the transition between contracts and the delayed onboarding of beds from issues with a third-party supplier, as well as the impact of recent regulatory changes. On November 14, 2018, the Company received a covenant waiver for the third quarter of 2018 and further amended its agreements for the New Credit Facilities such that interest owing on the Subordinated Facility would accrue for a period of up to six months and the Company would be subject to escalating increases in interest rates of 0.75% to 2.0% on its Senior Facilities and 2.5% to 5.0% on its Subordinated Facility, all of which would be payable and due on the earlier of the completion of a divestiture of its non-core assets or March 31, 2019.

On March 12, 2019, the Company received a covenant waiver for the fourth quarter of 2018 and amended its agreements for the New Credit Facilities to revise its financial covenants for the fourth quarter of 2018 and first quarter of 2019 to financial targets established based on a financial review by an independent third-party that was approved by the lenders. In addition to the revised financial covenants, the amendments also revised the payment of the accrued interest owing on the Senior Facilities and Subordinated Facility, such that half of the accrued interest, excluding any escalations in interest rates, on the Subordinated Facility would be payable on the issuance of the convertible preferred shares on March 12, 2019 as described below. All payment dates related to the remaining accrued interest and fees owing on the Senior Facilities and Subordinated Facility were amended to align with the completion of a divestiture of remaining non-core assets.

Although the Company received waivers subsequent to December 31, 2017 and December 31, 2018, as required under IFRS, the Company presented its total borrowings under the New Credit Facilities of \$81.1 million and \$85.7 million as at December 31, 2017 and December 31, 2018, respectively, as a current liability. There is no assurance that the lenders will provide additional relief of these covenants or that the Company could refinance or repay through new sources of financing in the event future breaches occur.

These circumstances may cast significant doubt as to the Company's ability to continue as a going concern, and the ultimate appropriateness of the use of accounting principles applicable to a going concern.

The Company has been subject to two significant regulatory changes: (1) the pan-Canadian generic pharmaceuticals plan; and (2) The Government of Alberta funding framework for Pharmacists. These two regulatory changes have had a significant impact on operations and financial performance. During the year, Management initiated a plan to offset the impact of regulatory changes within Specialty Pharmacy, focused on re-engineering the businesses to achieve operational efficiencies through work flow improvements, enhanced labour models, expanding service and product offerings, identifying other revenue generating opportunities and utilization of technology for automating processes. One of these initiatives commenced in September 2018 when the Company entered into multi-year supply and service agreements with a preferred cannabis partner for the provision of medical cannabis, and, as consideration for being the preferred supplier, the Company received upfront cash that can be used for growth of the Specialty Pharmacy business. The remaining initiatives aimed at achieving operational efficiencies and expanding other revenue generating activities were completed by the end of the fourth quarter of 2018.

In the event these initiatives, combined with continued organic growth and management of working capital, do not generate sufficient cash flows from operations to meet its obligations as they come due, the Company may need to generate funds from other sources of financing or other strategic alternatives, including the sale of assets.

The Company is committed to executing on its operating plan and further reducing its leverage and, as such, initiated a process to consider and evaluate strategic alternatives available to the Company that are in line with the Company's strategic direction. The Company retained a financial adviser to explore strategic opportunities, including divesting existing businesses and other non-core assets and recapitalization of the balance sheet through the issuance of additional equity, convertible debt or subordinated debt. All strategic alternatives being considered by the Company will be focused on further deleveraging the balance sheet and maximizing shareholder value.

As part of the execution of this strategy, the Company closed the sale of a retail pharmacy operation in Alberta on February 14, 2019 in exchange for \$2.3 million in proceeds. In addition, the Company issued 30,000,000 convertible preferred shares on March 12, 2019 in exchange for \$12.0 million in proceeds. Each convertible preferred share is entitled to receive a cumulative annual dividend of 9%, payable in arrears semi-annually. Each convertible preferred share is convertible into common shares at the holder's option on a one-for-one basis, and are redeemable at the Company's option in certain circumstances, subject to customary anti-dilution adjustments. The convertible preferred shares mature five years from the date of closing at which time each convertible preferred share will be redeemed by the Company for \$0.40 plus any unpaid dividends. The Company continues to explore and execute on other strategic opportunities to further deleverage the balance sheet.

There can be no assurance that: the Company will be successful in achieving the results as set out in its operating plan or generate sufficient cash flows from operations to meet its obligations as they come due throughout 2019; that the Company will complete the execution of other strategic alternatives; the Company will meet conditions established by lenders in the amended agreements; or that the lenders will continue to amend the New Credit Facilities to mitigate any future breaches of covenants. The Company's ability to continue as a going concern materially affects the measurement of many amounts related to the Company in the consolidated financial statements. These measurements could be materially different than currently presented.

Cash Flow

Cash flow activities for the year ended December 31, 2018 were as follows:

Cash provided by operating activities

Cash provided by operating activities was \$6.6 million compared to \$16.1 million in the same period in the prior year:

- Cash provided by operations in the current year included the receipt of \$7.0 million from the Company's preferred cannabis partner, of which \$3.0 million is restricted to growth-related activities for medical cannabis and the Specialty Pharmacy division.
- Cash provided by operations in the prior year included additional funds received pursuant to the Company's supply agreement with its exclusive drug supplier as well as a refund of prior taxes.
- The Company has historically generated positive cash flows from operating activities and anticipates that these will continue to be positive going forward.

Cash used in investing activities

Cash used in investing activities was \$6.3 million compared to \$8.4 million in the prior year:

- Cash used in investing activities in the current year related to purchases of property and equipment and intangible assets, payments of earn-outs related to historic acquisitions and its additional investments made in AceAge.
- Cash used in investing activities for the same period in the prior year related to purchases of property and equipment and intangible assets as well as the acquisition of Salus Pharmacare Inc., earn-out payments related to historic acquisitions and the initial investment in AceAge, net of proceeds of contingent consideration from the sale of certain businesses in 2015.

Cash used in financing activities

Cash used in financing activities was \$0.3 million compared to \$7.7 million in the prior year:

- Cash used in financing activities in the current year related to payments of interest and repayments made on the New Credit Facilities, net of restricted cash released from restrictions and withdrawals from the Revolving Facility.
 - Cash used in financing activities for the same period in the prior year related to the receipt of funds under the New Credit Facilities net of payments of interest, repayments made on the New Credit Facilities and the repayment of the Company's borrowings under its former credit facilities upon the closing of the New Credit Facilities.
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Contractual Commitments

The Company's contractual commitments at December 31, 2018, are as follows:

	Total	2019	2020-2021	2022-2023	Thereafter
	\$	\$	\$	\$	\$
Trade payables and other amounts	15.5	15.5	—	—	—
Term Facility	53.3	53.3	—	—	—
Subordinated Facility	11.6	11.6	—	—	—
Acquisition Facility	5.0	5.0	—	—	—
New Revolving Facility	19.2	19.2	—	—	—
Finance leases	0.2	0.1	0.1	—	—
Finance loans	0.1	0.1	—	—	—
Interest payments on borrowings	20.7	6.6	12.0	2.1	—
Operating leases	4.4	1.3	2.3	0.8	—
Contingent consideration	5.1	3.5	0.7	0.9	—
	135.1	116.2	15.1	3.8	—

The Company incurs interest on its New Credit Facilities. Future interest to be paid on the New Revolving Facility cannot be reasonably determined due to the ongoing fluctuation of the New Revolving Facility balance. Interest rates under the Senior Facilities vary based on the Company's total funded debt to EBITDA ratio with a range between 0.50% to 3.50% over the Canadian prime rate for prime rate loans and 2.00% to 5.00% over CDOR for Bankers' Acceptances and a range of 0.40% to 1.05% for standby fees for amounts not borrowed.

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.

Equity

As at December 31, 2018, the Company had total shares outstanding of 214,909,254. The outstanding shares include 4,554,232 shares which are restricted or held in escrow and will be released to certain vendors of acquired businesses based on the achievement of certain performance targets and certain customers. In the event that performance targets are not met, escrowed shares are subject to reduction and cancellation based on formulas specific to each transaction. Escrowed and restricted shares are not reflected in the shares reported on the Company's financial statements. Accordingly, for financial reporting purposes, the Company reported 210,355,022 common shares outstanding as at December 31, 2018 and 201,468,731 shares outstanding at December 31, 2017.

For the year ended	December 31, 2018	December 31, 2017
Common shares		
Balance, beginning of year	201,468,731	169,982,529
Issuance of common shares	5,225,616	1,208,036
Issuance of common shares for extinguishment of debt	—	28,331,093
Common shares released from escrow or issued from treasury for contingent consideration	833,332	—
Stock options, warrants and restricted share units exercised	2,427,343	1,947,073
Deferred consideration for acquisitions	400,000	—
Balance, end of year	210,355,022	201,468,731

Issuance of Deferred Stock-based Compensation

As at December 31, 2018, there were a total of 6,045,903 restricted share units and deferred share units outstanding to grant an equivalent number of common shares.

For the year ended	December 31, 2018	December 31, 2017
RSUs and DSUs		
Balance, beginning of year	3,224,080	4,738,984
RSUs and DSUs granted	4,690,000	952,000
RSUs and DSUs released	(1,427,343)	(1,563,573)
RSUs and DSUs forfeited	(440,834)	(903,331)
Balance, end of year	6,045,903	3,224,080

Issuance of Warrants

As at December 31, 2018, there were 2,822,000 warrants outstanding at a weighted average exercise price of \$0.76.

For the year ended	December 31, 2018	December 31, 2017
Share purchase warrants		
Balance, beginning of year	2,972,000	1,096,000
Warrants granted	850,000	1,972,000
Warrants exercised	(1,000,000)	(96,000)
Balance, end of year	2,822,000	2,972,000
Exercisable, end of year	1,900,000	2,900,000

Issuance of Stock Options

As at December 31, 2018, there were a total of 1,838,750 options outstanding to purchase an equivalent number of common shares, with a weighted average exercise price of \$0.40, expiring at various dates through 2021. The number of exercisable options at December 31, 2018, was 1,157,500 with a weighted average exercise price of \$0.40.

For the year ended	December 31, 2018	December 31, 2017
Common share options		
Balance, beginning of year	2,347,500	3,345,000
Options exercised	—	(287,500)
Options expired	(25,000)	(370,000)
Options canceled/forfeited	(483,750)	(340,000)
Balance, end of year	1,838,750	2,347,500
Exercisable, end of year	1,157,500	692,500

Should all outstanding options and warrants that were exercisable at December 31, 2018 be exercised, the Company would receive proceeds of \$2.4 million.

As at the date of this report, March 27, 2019, the number of shares outstanding, including escrowed shares, is 215,105,086; the number of options outstanding is 1,838,750; the number of restricted share units and deferred share units outstanding is 7,655,071; and the number of warrants outstanding is 3,872,000. Included in the shares outstanding are 4,554,232 restricted shares, shares held in escrow, or in trust, and are not freely tradeable.

Transactions with Related Parties

A collective group of officers and directors own 86,275,449 common shares or approximately 40.15% of the issued and outstanding common shares of the Company as at December 31, 2018, of which Global Healthcare Investments and Solutions, Inc. ("GHIS") and entities controlled by and related to the shareholders of GHIS, own a significant portion. This ownership percentage disclosed assumes the issuance of 4,554,232 escrowed and restricted shares in the total common shares considered to be outstanding.

Related Party Transactions

In the normal course of operations, the Company may enter into certain related party transactions, which may include transactions entered into with Company directors and management. All related party transactions would be for consideration established with the related parties, generally on market terms, and approved by the independent non-executive directors of the Company, including the transactions described below.

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 year ended December 31, 2018 are \$180 thousand (2017 - \$180 thousand) of consulting fees related to this arrangement. Included in trade payables and other amounts as at December 31, 2018 is \$15 thousand (2017 - \$15 thousand) due to the Board member for consulting fees. On March 29, 2018, one of the Board members exercised 1,000,000 warrants at a \$0.46 exercise price and received 1,000,000 common shares in exchange for \$460 thousand in proceeds.

Related Party Loans

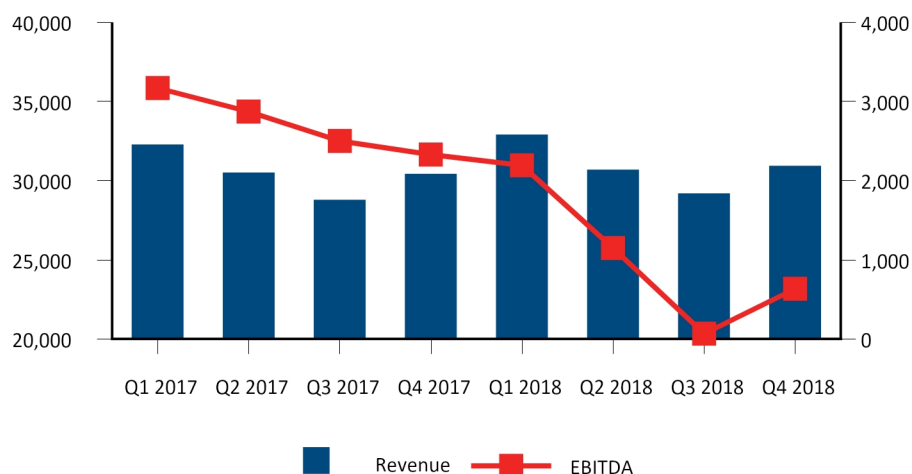
In the third quarter of 2014, the Company launched a Key Employee Engagement Share Plan ("KEESP") to enable eligible employees to acquire common shares of the Company. The KEESP allowed employees to contribute toward the purchase of common shares of the Company whereby the Company matched employee contributions by up to three times with payments capped at a predetermined level. The portion of funds matched by the Company was repayable by the employees as a promissory note bearing interest at 3% in equal annual instalments over five years. The Company terminated the KEESP on March 21, 2018.

Summary of Quarterly Results

	Q4 2018 ⁴ \$	Q3 2018 ⁴ \$	Q2 2018 ⁴ \$	Q1 2018 ⁴ \$
(thousands of Canadian Dollars)				
Revenue from continuing operations	30,929	29,198	30,696	32,919
Adjusted EBITDA from continuing operations	633	66	1,146	2,195
Adjusted EBITDA per share from continuing operations:				
Basic and diluted	\$0.003	\$0.0003	\$0.01	\$0.01
Net loss from continuing operations	(8,415)	(1,683)	(21,742)	(2,548)
Earnings per share from continuing operations:				
Basic and diluted	\$(0.04)	\$(0.01)	\$(0.11)	\$(0.01)
Adjusted EBITDA	1,943	1,552	3,406	3,824
Adjusted EBITDA per share:				
Basic and diluted	\$0.01	\$0.01	\$0.02	\$0.02
Net loss	(7,678)	(871)	(20,845)	(1,699)
Earnings per share:				
Basic and diluted	\$(0.04)	\$(0.004)	\$(0.10)	\$(0.01)
	Q4 2017 ⁴ \$	Q3 2017 ⁴ \$	Q2 2017 ⁴ \$	Q1 2017 ⁴ \$
Revenue from continuing operations	30,427	28,788	30,514	32,280
Adjusted EBITDA from continuing operations	2,329	2,502	2,873	3,170
Adjusted EBITDA per share from continuing operations:				
Basic and diluted	\$0.01	\$0.01	\$0.01	\$0.02
Net income (loss) from continuing operations	2,621	(832)	(1,677)	(4,493)
Earnings per share from continuing operations:				
Basic and diluted	\$0.01	\$(0.004)	\$(0.01)	\$(0.03)
Adjusted EBITDA	4,058	4,084	4,915	4,456
Adjusted EBITDA per share:				
Basic and diluted	\$0.02	\$0.02	\$0.02	\$0.02
Net income (loss)	3,301	248	2,600	(3,870)
Earnings per share:				
Basic and diluted	\$0.01	\$0.001	\$0.01	\$(0.02)

⁴ Revenue and Adjusted EBITDA from continuing operations includes a restatement of previously reported amounts in order to reflect the impact of discontinued operations for businesses that were divested in 2016 and 2018 as well as assets held for sale.

Revenue and Adjusted EBITDA from Continuing Operations by Quarter
(in \$'000)



Throughout 2017, as a result of the timing of transitions of certain contracts, the Company experienced a decline throughout the first three quarters in revenue and Adjusted EBITDA. Following the third quarter of 2017, revenue returned to periods of growth in the fourth quarter of 2017 and first quarter of 2018, driven by the completion of the contract transitions as well as organic and acquired growth. During this period, Adjusted EBITDA continued to decline slightly as a result of excess labour costs due to labour inefficiencies and increased costs associated with the servicing of newly onboarded homes.

Beginning in the second quarter of 2018, the Company's revenue and Adjusted EBITDA decreased compared to the prior quarter primarily as a result of the regulatory changes in Alberta and nationally, which resulted in reductions to fee revenues earned in Alberta and the reduction in the prices of

nearly 70 of the most commonly prescribed drugs in Canada were reduced by 25% to 40%, resulting in overall discounts of up to 90% off the price of their brand-name equivalent.

In the fourth quarter of 2018, the Company achieved quarter-over-quarter growth in revenue and Adjusted EBITDA as a result of cost savings and incremental revenues achieved through the Business Re-Engineering Plan as well as additional beds serviced during the quarter. The Company expects continued quarter-over-quarter growth in Adjusted EBITDA in the first quarter of 2019 as the number of beds serviced will continue to increase and the full impact of cost savings measures are expected to be realized.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

The Chief Executive Officer and the Chief Financial Officer (collectively the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuer's Annual and Interim Filings*, for the Company.

The Certifying Officers have concluded that, as at December 31, 2018, the Company's DC&P has been designed effectively to provide reasonable assurance that (a) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted, recorded, processed, summarized and reported within the time periods specified in the securities legislation.

There have been no significant changes to the Company's ICFR for the year ended December 31, 2018, which has materially affected, or is reasonably likely to materially affect the Company's ICFR. Based on their evaluation of these controls for the year ended December 31, 2018, the CEO and CFO have also concluded that the Company's ICFR have been designed effectively to provide reasonable assurance regarding the reliability of the preparation and presentation of the financial statements for external purposes and that ICFR were effective as at December 31, 2018. The Company used the COSO control framework to evaluate DC&P and ICFR.

It should be noted that while the Company's Certifying Officers believe that the Company's DC&P provides a reasonable level of assurance that they are effective, they do not expect that the disclosure controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes in line with International Financial Reporting Standards. Management is responsible for establishing and maintaining adequate ICFR appropriate to the nature and size of the Company. However, any system of ICFR has inherent limitations and can only provide reasonable assurance with respect to financial statement preparation and presentation.

In conjunction with the conversion to the new IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, the Company has determined that the adoption of these new accounting standards did not have a significant impact on its control environment.

Critical Accounting Policies and Estimates

Critical Accounting Policies

The consolidated financial statements have been prepared in accordance with IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") that are effective for the year ended December 31, 2018.

With the exception of the new standards adopted by the Company described below, the Company's significant accounting policies are summarized in detail in note 2 of the consolidated financial statements for the year ended December 31, 2018.

New standards, amendments and interpretations adopted by the Company

The Company has initially adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* beginning January 1, 2018. A number of other amendments are also effective from January 1, 2018 but they do not have a material effect on the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a comprehensive five-step revenue recognition model for all contracts with customers in determining whether, how much and when revenue is recognized. The standard replaces all previous revenue recognition standards, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Company has adopted IFRS 15 using the modified retrospective method, without prior period comparatives restated, with the effect of initially applying this standard recognized at the date of initial application (i.e. January 1, 2018). Accordingly, the information presented for 2017 has not been restated - it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The adoption of IFRS 15 resulted in a change in the timing of recognition of revenue from Family Practice memberships and Executive Health Assessment bundle contracts.

IFRS 9 Financial Instruments

IFRS 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 Financial instruments: Recognition and measurement that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are

required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests.

There has not been any significant impact from the adoption of IFRS 9 on the carrying amounts of financial assets at January 1, 2018 or on net income for the year ended December 31, 2018.

Refer to note 2 of the consolidated financial statements for the year ended December 31, 2018 for further details regarding the Company's adoption of these new accounting standards.

New standards, amendments and interpretations not yet adopted

IFRS 16 *Leases* introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases for leases with terms of more than twelve months, unless the underlying asset is of low value. Lessor accounting for leases as finance and operating leases will remain substantially unchanged. The IASB issued the standard in 2016, replacing IAS 17 *Leases* and related interpretations. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* in response to diversity in practice for various issues in circumstances in which there is uncertainty in the application of the tax law. While IAS 12 *Income Taxes* provides requirements on the recognition and measurement of current and deferred tax assets and liabilities, there is diversity in the accounting for income tax treatments that have yet to be accepted by tax authorities. The IFRIC Interpretation 23 is applicable for annual periods beginning on or after January 1, 2019 and may be applied on a fully retrospective basis, if it is possible without the use of hindsight, or on a modified retrospective basis, with an adjustment to equity on initial application. Earlier application is permitted. The Company intends to

adopt IFRIC 23 in its consolidated financial statements for the annual period beginning on January 1, 2019.

Critical Accounting Estimates and Judgments

The preparation of financial statements requires the Company to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on the Company's reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period, and would materially impact the Company's financial condition, changes in financial condition or results of operations.

Significant critical accounting estimates include the collectability of receivables, assessment of impairment of goodwill and intangible assets, the recognition of contingent consideration, the valuation of deferred tax assets and tax provisions and the accounting for business combinations.

Collectability of Receivables

The Company assesses the collectability of receivables on an ongoing basis. A provision for the impairment of receivables involves management judgment and includes the review of individual receivables based on individual customer creditworthiness, current economic trends, forward-looking information and analysis of historical bad debts.

Goodwill and Intangible Assets Valuation

The Company performs an impairment assessment of goodwill and indefinite life intangible assets on an annual basis and at any other time if events or circumstances make it possible that impairment may have occurred. The Company also considers whether there are any triggers for impairment at each quarter end. Determining whether impairment of goodwill has occurred requires a valuation of the respective business unit, based on its fair value, which is based on a number of factors, including discounted cash flows, future business plans, economic projections and market data.

An indefinite-life intangible asset is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the indefinite-life intangible asset with its carrying amount. When the carrying amount of the indefinite-life intangible asset exceeds its fair value, an impairment loss should be recognized in an amount equal to the excess.

The Company tests the valuation of goodwill and indefinite life intangibles as at June 30 of each year to determine whether or not any impairment in the goodwill and intangible balances recorded exists. In addition, on a quarterly basis, management assesses the reasonableness of

assumptions used for the valuation to determine if further impairment testing is required.

Recognition of Contingent Consideration

The Company recognizes the fair value of contingent consideration relating to its business acquisitions at the date the transaction closes and at each subsequent reporting date. The purchase price of most acquisitions is subject to the financial performance of the businesses being acquired. The number of shares, either issued in escrow and subsequently released to the vendor, or to be issued at a later date varies based on the acquired business achieving predetermined earnings targets over a specified period.

In addition, warrants are issued when these performance targets are exceeded generally based on an accrual of warrants to the extent of such excess. The exercise price of the warrants is based on the Company's share price at the date of closing. As a result of this variability, the fair value of the contingent consideration is recorded as a financial liability irrespective of the fact that this liability will be settled on a non-cash basis through the issuance of shares and warrants.

Subsequent changes in fair value between reporting periods are included in the determination of net income. Changes in fair value arise as a result of changes in the Company's share price and changes in the estimated probability of achieving the earnings targets. Shares issued or released from escrow in final settlement of contingent consideration are recognized at their fair value at the time of issue with a corresponding reduction in the contingent consideration liability.

Valuation of Deferred Tax Assets

In its valuation of deferred tax assets, the Company considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the period in which those temporary losses and tax loss carryforwards become deductible. The Company considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. The Company expects that future operations will generate sufficient taxable income to realize the deferred tax assets except for an unrecognized deferred tax asset of \$9.6 million which the Company has not recorded at December 31, 2018.

Business Combinations

Upon the completion of business acquisitions, management's judgment is required to estimate the purchase price, and to identify and fair value all assets and liabilities acquired. The determination of the fair value of assets and liabilities acquired is based on management's estimates and certain assumptions generally included in a present value calculation of the related cash flows.

Risks and Uncertainties

The business of Centric Health is subject to a number of risks and uncertainties. Prior to making any investment decision regarding the Company, investors should carefully consider, among other things the risks described herein (including the section on caution regarding forward looking statements).

Uncertainty of Liquidity and Capital Requirements

The future capital requirements of the Company will depend on many factors, including the number and size of acquisitions consummated, rate of growth of its client base, the costs of expanding into new markets, the growth of the market for healthcare services, the costs of administration and its debt and preferred share servicing obligations. In order to meet such capital requirements, the Company may consider additional public or private financing (including the incurrence of debt and the issuance of additional common or preferred shares) to fund all or a part of a particular venture, which could entail dilution of current investors' interest in the Company. There can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms. If adequate funds are not available, the Company may have to reduce substantially or otherwise eliminate certain expenditures. There can be no assurance that the Company will be able to raise additional capital if its capital resources are depleted or exhausted.

Further, due to regulatory impediments or a lack of investor demand, the ability of the Company to issue additional common shares or other securities exchangeable for or convertible into common shares to finance acquisitions may be restricted.

The Company currently has the New Credit Facilities, pursuant to which it is subject to a number of affirmative and negative financial covenants. These include, but are not limited to, restrictions on incurring additional indebtedness, paying dividends or other distributions, making certain investments/acquisitions, selling assets of the Company, cannabis-related activities, payments on subordinated debt, the ability to pay earn-out obligations and the deferral of payment on certain interest and fees on the subordinated debt. The New Credit Facilities also require the Company to dispose of certain non-core assets within an agreed-upon time frame to ensure the Company's deleveraging strategy is achieved in a timely manner and that it is able to maintain certain financial covenants in the New Credit Facilities going forward. There can be no assurance that the Company will be successful in disposing these non-core assets within the timelines required under the New Credit Facilities.

In addition, the New Credit Facilities are collateralized by substantially all of the Company's assets. In the event of a default, including, among other things, a failure to make any payment when due or non-observance any term of the

agreement, all of the Company's obligations may immediately become due and payable, and the lenders would also be entitled to realize on their security and liquidate the assets of the Company. If the lenders under the New Credit Facilities accelerate the repayment of borrowings, the Company cannot assure that it will have sufficient assets to repay the amounts outstanding, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has received a waiver for its financial covenants for the period ended December 31, 2018. Management's forecasts projected that the Company would breach certain financial covenants of the New Credit Facilities in the fourth quarter of 2018 and first quarter of 2019. The Company amended its agreements for the New Credit Facilities in anticipation of forecasted breaches of the financial covenants during the fourth quarter of 2018 and the first quarter of 2019 and received waivers of the existing financial covenants and revised these to be based on financial targets established through a financial review by an independent third-party that was approved by the lenders. In addition to the revised financial targets, the amendments also revised the payment of the accrued interest owing on the Senior Facilities and Subordinated Facility, such that half of the accrued interest, excluding any escalations in interest rates, on the Subordinated Facility would be payable on the issuance of the convertible preferred shares on March 12, 2019 and the remaining accrued interest would be payable on the completion of the divestiture of remaining non-core assets. The interest owing on the Senior Facilities and Subordinated Facility was previously amended such that the Company would be subject to escalating increases in interest rates of 0.75% to 2.0% and 2.5% to 5.0%, respectively, all of which would be payable and due on the earlier of the completion of a divestiture of its non-core assets or March 31, 2019.

Management has planned and initiated to offset the impact of regulatory changes, focused on re-engineering the businesses to achieve operational efficiencies through work flow improvements, enhanced labour models, expanding service and product offerings, identifying other revenue generating opportunities and utilization of technology for automating processes. In the event these initiatives, combined with continued organic growth and management of working capital, do not generate sufficient cash flow from operations to meet its obligations as they come due, the Company may need to generate funds from other sources of financing or other strategic alternatives.

The Company is committed to executing on its operating plan and further reducing its leverage and, as such, has initiated a process to consider and evaluate strategic alternatives available to the Company that are in line with the Company's strategic direction. The Company will be exploring

opportunities, including divesting existing businesses and other non-core assets and recapitalization of the balance sheet through the issuance of additional equity, convertible debt or subordinated debt.

There can be no assurance that the Company will be successful in achieving the results as set out in its operating plan or generate sufficient cash flow from operations to meet its obligations as they come due throughout 2019, that the Company will complete the execution of one of the strategic alternatives, that the Company will meet conditions established by lenders in the amended agreements or that the senior lenders will continue to amend the New Credit Facilities to mitigate any future breaches of covenants.

Cash Flow to Service Debt

The Company is highly leveraged. As at December 31, 2018, the Company had approximately \$85.9 million of outstanding indebtedness. The Company currently estimates that, in absence of further deleveraging of its balance sheet, including through a sale of non-core assets, its debt service for the next 12 months will be approximately \$14.0 million, including required principal and interest payments and preferred share dividends. The Company's substantial indebtedness could have significant adverse consequences on the Company and its business, including: requiring a substantial portion of its cash flows to be dedicated to the payment of principal and interest on its indebtedness, therefore reducing its ability to use cash flows to fund its operations, capital expenditures and potential future business opportunities; making it more difficult for the Company to make payments on its indebtedness, which could result in an event of default under its New Credit Facilities; limiting its ability to obtain additional financing; reducing the Company's flexibility in planning for, or reacting to, changes in its operations or business; prohibiting the Company from making strategic acquisitions, introducing new technologies or exploiting business opportunities; placing the Company at a competitive disadvantage as compared to its less-highly-leveraged competitors; and negatively affecting the Company's ability to renew key customer contracts. For additional information on the Company's outstanding long-term debt, see "Liquidity and Capital Resources".

Government Regulation and Funding

General Healthcare Regulation

Healthcare service providers in Canada are subject to various governmental regulation and licensing requirements and, as a result, the Company's businesses operate in an environment in which government regulations and funding play a key role. The level of government funding directly reflects government policy related to healthcare spending, and decisions can be made regarding such funding that are largely beyond the businesses' control. Any change in governmental regulation, delisting of services, and licensing requirements relating to

healthcare services, or their interpretation and application, could adversely affect the business, financial condition and results of operations of these business units. In addition, the Company could incur significant costs in the course of complying with any changes in the regulatory regime. Non-compliance with any existing or proposed laws or regulations could result in audits, civil or regulatory proceedings, fines, penalties, injunctions, recalls or seizures, any of which could adversely affect the reputation, operations or financial performance of the Company.

Pharmacy Industry Regulation

The Company's core business is focused on the provision of specialty pharmacy services to seniors. The Company is reliant on prescription drug sales for a significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

Federal and provincial laws and regulations that establish public drug plans typically regulate prescription drug coverage, patient eligibility, pharmacy reimbursement, drug product eligibility and drug pricing and may also regulate manufacturer allowance funding that is provided to or received by pharmacy or pharmacy suppliers. With respect to pharmacy reimbursement, such laws and regulations typically regulate the allowable drug cost of a prescription drug product, the permitted mark-up on a prescription drug product, the professional or dispensing fees that may be charged on prescription drug sales to patients eligible under the public drug plan and the frequency in which such professional or dispensing fees may be charged. With respect to drug product eligibility, such laws and regulations typically regulate the requirements for listing the manufacturer's products as a benefit or partial benefit under the applicable governmental drug plan, drug pricing and, in the case of generic prescription drug products, the requirements for designating the product as interchangeable with a branded prescription drug product. In addition, other federal, provincial, territorial and local laws and regulations govern the approval, packaging, labeling, sale, marketing, advertising, handling, storage, distribution, dispensing and disposal of prescription drugs.

Sales of prescription drugs, pharmacy reimbursement and drug prices may be affected by changes to the health care industry, including legislative or other changes that impact patient eligibility, drug product eligibility, the allowable cost of a prescription drug product, the mark-up permitted on a prescription drug product, the amount of professional or dispensing fees paid by third-party payers or the provision or receipt of manufacturer allowances by pharmacy and pharmacy suppliers.

The majority of prescription drug sales are reimbursed or paid by third-party payers, such as governments, insurers or employers. These third-party payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products.

On January 29, 2018, the Pan-Canadian Pharmaceutical Alliance, which represents participating federal, provincial, and territorial public drug plans, announced that it reached a new 5-year agreement with the Canadian Generic Pharmaceutical Association with respect to the pricing of generic drugs in Canada. As of April 1, 2018, the prices of nearly 70 of the most commonly prescribed drugs in Canada were reduced by 25% - 40%, resulting in overall discounts of up to 90% off the price of their brand-name equivalents. These drugs include those used to treat high blood pressure, high cholesterol, and depression, and are collectively used by millions of Canadians.

Furthermore, on February 28, 2018, Alberta Health announced a new funding framework that was entered into with the Alberta Pharmacists' Association that took effect May 17, 2018. Amongst other things, the changes reduced dispensing fees in the Province from \$12.30 to \$12.15 and placed a limit on the number of frequent dispensing fees. The new funding framework also contemplated a potential holdback policy where at least 10% of government funding to pharmacies for certain fees, including dispensing fees, may be temporarily or permanently withheld each quarter to be used to address any provincial government budget shortfall (the "Holdback"). The Holdback percentages may be modified based on the trend of forecasted savings in the government's Pharmacy Compensation Budget. While the Company understands that the Holdback will be eliminated on April 1, 2020 and for the fiscal year April 1, 2019 to March 31, 2020, the Holdback will be established at 0%, the provincial government reserves the right to revisit this policy.

While the Company continues to take action to mitigate the effects of these changes, including through the business re-engineering plan, these, as well as other ongoing changes impacting pharmacy reimbursement programs, prescription drug pricing and manufacturer allowance funding, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales and payments relating thereto. These changes may have a material adverse impact on the Company's business, sales and profitability.

Private Surgery Regulation

There are currently initiatives intended to compel enforcement by the Medicare Services Commission of the Government of British Columbia (the "Commission") of certain provisions of the Medicare Protection Act (British Columbia) ("Act") against private clinics operating in the province with the use of doctors enrolled in the Medicare Services Plan of British Columbia (the "Plan"). The Plan insures medically-necessary services for residents of British Columbia. Under the Act, enrolled doctors are prohibited from providing services in both the public and private systems. The Company's subsidiary, False Creek Health Care Centre LP ("False Creek"), operates a private clinic in British Columbia that uses the services of independent doctors that are enrolled under the Plan. A constitutional challenge has been brought by another private clinic in British Columbia challenging certain provisions of the Act, including the prohibition of enrolled doctors from providing services in both the public and private systems. The goal of the challenge is to have the Commission remove the restrictions that prevent British Columbia residents from obtaining timely, and potentially life-saving, medical care. The matter was set to go to trial in September 2014 and, following subsequent adjournments, commenced in September 2016. The trial is expected to be completed in mid-2019, with a decision expected to be released in late 2019.

In 2018, the British Columbia Government announced that it was intending to bring into force certain changes to the Act effective October 1, 2018 that were originally adopted in 2003 but never brought into force. The proposed changes would have provided for fines of up to \$20 thousand to doctors and other persons (including private clinics) who bill patients for expedited care for "medically necessary" services at rates higher than those prescribed by the Medical Services Plan and potentially de-enroll offending doctors from the public system. A legal injunction challenging the proposed amendments was heard in September 2018 and was decided in favour of the applicants, meaning that the proposed amendments will be suspended until the constitutional challenge is complete. The British Columbia Government also separately agreed to delay the implementation of certain changes to the Act relating specifically to diagnostic procedures until April 1, 2020.

If the constitutional challenge is successful then this should dispose of initiatives intended to compel enforcement by the Commission of certain provisions of the Act. If the constitutional challenge is unsuccessful and the Commission commences initiatives aimed at enforcement of the Act, it is expected that this would result in a direct and material impact on the False Creek Healthcare Centre. Enforcement measures of the Commission could include compelling of facility audits, injunctions and/or penalties or other compensatory measures. There can be no assurance at this time as to the outcome of the constitutional challenge or any

initiatives of the Commission as against enrolled doctors or private clinics in British Columbia. The Company is actively monitoring the developments in the constitutional challenge, as well as conducting its own investigations into the applicability of, and measures under, the Act.

Reliance on Contracts with Key Customers

Revenues attributable to the Company's businesses are dependent upon certain significant customers. There can be no assurance that the Company's contracts with its key customers will be renewed or that the Company's services will continue to be utilized by those key customers. There could be material adverse effects on the businesses of the Company if a key customer does not renew its contracts with the Company, or elects to terminate its contracts with the Company in favour of another service provider. Further, there is no assurance that any new agreement or renewal entered into by the Company with its customers will have terms similar to those contained in current arrangements, and the failure to obtain those terms could have an adverse effect on the Company's businesses.

Supply Chain

The Company sources the majority of its pharmaceutical products from a single supplier. Therefore, the Company's distribution operations and supply chain are exposed to potential disruptions which could affect the cost and timely delivery of pharmaceutical products. While the Company has made provision for any disruption of service, any disruption, even if temporary, could negatively affect the Company's sales and financial performance.

Litigation & Insurance Cover

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. In the opinion of the Company, 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. However, to the extent that management's assessment of the Company's exposure in respect of such matters is either incorrect or changes as a result of any determinations made by judges or other finders of fact, the Company's exposure could exceed current expectations, which could have a material adverse effect on its financial position, results of operations or cash flows.

The Company makes acquisitions of various sizes that may involve consideration to vendors in the form of cash and securities of the Company, as well as adjustment or contingent consideration that may take the form of price protection, earn-outs or performance rewards over a period of time. Contestation through litigation by vendors at a future date of actual, or applicable, entitlements under the negotiated agreements can happen, and may result in liabilities and contingencies to the Company or strained

working relationships with vendors turned key employees in connection with the acquisition. The Company also completes divestitures of various sizes and the Company may from time-to-time be a party to a dispute relating to the transaction, which could result in liabilities and/or contingencies to the Company.

In recent years, liability insurance coverage has become considerably more expensive and the availability of coverage has been reduced in certain cases. There is no assurance that the existing coverage will continue to be sufficient or that, in the future, policies will be available at adequate levels of insurance or at acceptable costs. The Company maintains professional malpractice liability insurance, directors' and officers' and general liability insurance in amounts it believes are sufficient to cover potential claims arising out of its operations. Some claims, however, could exceed the scope of its coverage or the coverage of particular claims could be denied.

Due to the nature of the services provided by the Company, general liability and error and omissions claims may be asserted against the Company with respect to disability management services and malpractice claims may be asserted against Centric Health, or any of its subsidiaries, with respect to healthcare services. Although the Company carries insurance in amounts that management believes to be standard in Canada for the operation of healthcare facilities, there can be no assurance that the Company will have coverage of sufficient scope to satisfy any particular liability claim. The Company believes that it will be able to obtain adequate insurance coverage in the future at acceptable costs, but there can be no assurance that it will be able to do so or that it will not incur significant liabilities in excess of policy limits. Any such claims that exceed the scope of coverage or applicable policy limits, or an inability to obtain adequate coverage, could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

The markets for Centric Health's products and services are intensely competitive, subject to rapid change and significantly affected by market activities of other industry participants. Other than relationships the Company has built up with insurance companies, healthcare providers, retirement homes and long term care homes and patients, there is little to prevent the entrance of those wishing to provide similar services to those provided by Centric Health and its subsidiaries. Competitors with greater capital and/or experience may enter the market or compete for referrals from insurance companies and the services of available healthcare professionals. There can be no assurance that Centric Health will be able to compete effectively for these referrals and healthcare professionals, that additional competitors will not enter the market, that such competition will not make it more difficult or expensive to provide

disability management services or that competitive pressures in the provision of these services in a geographic region will not otherwise adversely affect Centric Health.

Liquidation Priority of the Preferred Shares

The common shares of the Company rank junior to the convertible preferred shares issued to Ewing Morris with respect to amounts payable in the event of its liquidation, dissolution or winding-up. If the Company voluntarily or involuntarily liquidates, dissolves or winds-up, no distribution of its assets may be made to holders of common shares until it has paid to holders of the convertible preferred shares their liquidation preference, which is currently calculated at \$12.0 million.

Increased Costs of a Change of Control

Certain provisions of the convertible preferred shares issued to Ewing Morris could make it more difficult or more expensive for a third party to acquire the Company. For example, if a change of control were to occur or the Company were to sell all or substantially all of its assets, holders of the convertible preferred shares have the right to redeem their convertible preferred shares at certain premiums to their liquidation preference. In addition, the holder of the convertible preferred shares has the right to force an acquirer of the Company to maintain the convertible preferred shares in the capital structure of the resulting entity in certain circumstances. These features of the convertible preferred shares could increase the cost of acquiring the Company or otherwise discourage a third party from acquiring it.

Acquisitions and Integration

The Company has and continues to expect to make acquisitions of various sizes that fit particular niches within Centric Health's overall corporate strategy. There is no assurance that it will be able to acquire businesses on satisfactory terms or at all. These acquisitions will involve the commitment of capital and other resources, and these acquisitions could have a major financial impact in the year of acquisition and beyond. The speed and effectiveness with which Centric Health integrates these acquired companies into its existing businesses may have a significant short-term impact on Centric Health's ability to achieve its growth and profitability targets.

The successful integration and management of acquired businesses involves numerous risks that could adversely affect Centric Health's growth and profitability, including that:

- (a) Management may not be able to manage successfully the acquired operations and the integration may place significant demands on management, thereby diverting its attention from existing operations;
- (b) Operational, financial and management systems may be incompatible with or inadequate to integrate into

Centric Health's systems and management may not be able to utilize acquired systems effectively;

- (c) Acquisitions may require substantial financial resources that could otherwise be used in the development of other aspects of the business;
- (d) Acquisitions may result in liabilities and contingencies which could be significant to the Company's operations; and
- (e) Personnel from Centric Health's acquisitions and its existing businesses may not be integrated as efficiently or at the rate foreseen.

The acquisition of healthcare-related companies or assets involves a long cost recovery cycle. The sales processes for the products that these companies offer are often subject to lengthy customer approval processes. Failures by the Company in achieving signed contracts after the investment of significant time and effort in the sales process could have an adverse impact on the Company's operating results.

Referrals

In the Surgical and Medical Centres segment, the patient referrals are dependent on the surgical practitioners affiliated therewith. Surgical practitioners have no contractual obligation or economic incentive to refer patients to the surgical centres. Should surgical practitioners discontinue referring patients or performing operations at the surgical centres, the business, financial condition and results of operations of Centric Health could be adversely affected.

Shortage of Healthcare Professionals

As the Company expands its operations, it may encounter difficulty in securing the necessary professional medical and support staff to support its expanding operations. There is currently a shortage of certain medical specialty physicians and nurses in Canada and this may affect Centric Health's ability to hire physicians, nurses and other healthcare practitioners in adequate numbers to support its growth plans, which may adversely affect the business, financial condition and results of operations.

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. Accounts receivable are from the workers compensation boards, government agencies, employers, insurance companies and patients.

Information Technology Systems

Centric Health's businesses depend, in part, on the continued and uninterrupted performance of its information technology systems. Sustained system failures or interruptions could disrupt the Company's ability to operate effectively, which in

turn could adversely affect its business, results of operations and financial condition.

The Company's computer systems may be vulnerable to damage from a variety of sources, including physical or electronic break-ins, computer viruses and similar disruptive problems. Despite precautions taken, unanticipated problems affecting the information technology systems could cause interruptions for which Centric Health's insurance policies may not provide adequate compensation.

Exposure to Epidemic or Pandemic Outbreak

As Centric Health's businesses are focused on healthcare, its employees and/or facilities could be affected by an epidemic or pandemic outbreak, either within a facility or within the communities in which Centric operates. The Company has developed protocols and procedures should they be required to deal with any potential outbreaks impacting its facilities. Despite appropriate steps being taken to mitigate such risks, there can be no assurance that existing policies and procedures will ensure that Centric Health's operations would not be adversely affected.

Confidentiality of Personal and Health Information

Centric Health and its subsidiaries' employees have access, in the course of their duties, to personal information of clients of the Company and specifically their medical histories. There can be no assurance that the Company's existing policies, procedures and systems will be sufficient to address the privacy concerns of existing and future clients. If a client's privacy is violated, or if Centric Health is found to have violated any law or regulation, it could be liable for damages or for criminal fines or penalties.

Key Personnel

The Company believes that its future success will depend significantly upon its ability to attract, motivate and retain highly skilled executive management. In addition, the success of each business unit depends on employing or contracting, as the case may be, qualified healthcare professionals. Currently, there is a shortage of such qualified personnel in Canada. The Company will compete with other potential employers for employees and it may not be successful in keeping the services of the executives and other employees, including healthcare professionals that it requires. The loss of highly skilled executives and healthcare professionals or the inability to recruit these individuals in markets that the Company operates in could adversely affect the Company's ability to operate its business efficiently and profitably.

Accounting, Tax and Legal Rules and Laws

Any changes to accounting, legal and/or tax standards and pronouncements introduced by authorized bodies may impact on the Company's financial performance. Additionally, changes to any of the federal and provincial laws, regulations or policies in jurisdictions where the Company operates could

materially affect the Company's operations and its financial performance. The Company may also incur significant costs in order to comply with any proposed changes. Further, the Company may take positions with respect to the interpretation of accounting, tax and legal rules and laws that may be different than the interpretation taken by applicable regulatory authorities. Although the Company believes that its provision for its legal and tax liabilities is reasonable, determining this provision requires significant judgment and the ultimate outcome may differ from the amounts recorded in its financial statements and may materially affect its financial results in the period or periods for which such determination is made. The Company's failure to comply with laws, regulations or policies may expose the Company to legal or regulatory proceedings which could have a material impact on the Company's financial performance.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

The Company may face risks if there are deficiencies in its internal control over financial reporting and disclosure controls and procedures. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes. Management is responsible for establishing and maintaining adequate internal controls over financial reporting appropriate to the nature and size of the Company.

The Board, in conjunction with its Audit Committee, is responsible for assessing the progress and sufficiency of internal controls over financial reporting and disclosure controls and procedures and will make adjustments as necessary. However, these initiatives may not be effective at remedying any deficiencies in internal control over financial reporting and disclosure controls and procedures. Any deficiencies, if uncorrected, could result in the Company's financial statements being inaccurate and in future adjustments or restatements of its financial statements, which could adversely affect the price of the shares and Centric Health's business, financial condition and results of operations.

Capital Investment

The timing and amount of capital expenditures by the Company will be dependent upon the Company's ability to utilize credit facilities, raise new debt, generate cash from operations, meet working capital requirements and sell additional shares in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Company for necessary or desirable capital expenditures or that the amount required will be the same as currently estimated. Lack of these funds could limit the future growth of the Company and its subsidiaries and their respective cash flows.

Dilution

The Company's by-laws authorize the Company, in certain circumstances, to issue an unlimited number of shares for the consideration and on those terms and conditions as are established by the Board without the approval of the Shareholders, who have no pre-emptive rights in connection with such issuances. Any further issuance of shares may dilute the interests of existing shareholders.

Significant Shareholders

There are significant shareholders of the Company that may be long-term holders of the common shares in the Company. This has the effect of reducing the public float for the common shares, which may, in turn, impact the liquidity for the shares. In addition, relatively low liquidity may adversely affect the price at which the common shares of the Company trade on the listed market. Significant shareholders may also be able to exercise significant influence over any matter requiring shareholder approval in the future.

Ethical Business Conduct

A violation of law, the breach of Company policies or unethical behaviour may impact the Company's reputation which in turn could negatively affect the Company's financial performance. The Company has established policies and procedures, including a Code of Business Conduct, to support a culture with high ethical standards.

Volatile Market Price for Securities of the Company

The market price for securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in estimates of future results of operations by the Company or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- addition or departure of the Company's executive officers and other key personnel;
- release or other transfer restrictions on outstanding securities;
- sales or perceived sales of additional securities;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and,
- news reports relating to trends, concerns or competitive developments, regulatory changes and

other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the securities of the Company may decline even if the operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Company's securities by those institutions, which could adversely affect the trading price of the Company's securities. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility continue, the Company's operations and the trading price of the Company's securities may be adversely affected.

The Company Needs to Comply with Financial Reporting and Other Requirements as a Public Company

The Company is subject to reporting and other obligations under applicable Canadian securities laws and TSX rules, including National Instrument 52-109. These reporting and other obligations place significant demands on the Company's management, administrative, operational and accounting resources. Moreover, any failure to maintain effective internal controls could cause the Company to fail to meet its reporting obligations or result in material misstatements in its consolidated financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed, which could also cause investors to lose confidence in the Company's reported financial information, which could result in a lower trading price of its securities.

Management does not expect that Company's disclosure controls and procedures and internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The

inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Future Sales of the Company's Securities by Directors and Executive Officers

Subject to compliance with applicable securities laws, directors and executive officers and their affiliates may sell some or all of their securities in the Company in the future. No prediction can be made as to the effect, if any, such future sales will have on the market price of the Company's securities prevailing from time to time. However, the future sale of a substantial number of securities by the Company's directors and executive officers and their controlled entities, or the perception that such sales could occur, could adversely affect prevailing market prices for the Company's securities.

Directors and Officers May Have Conflicts of Interest

Certain of the directors and officers of the Company may also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company are being made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company.

Third Party Service Providers

The Company is reliant upon third-party service providers in respect of certain of its operations. It is possible that negative events affecting these third-party service providers, or any negligence or failure to perform the services as contemplated, could, in turn, negatively impact the Company. In order to minimize operating risks, the Company actively monitors and manages its relationships with its third-party service providers.

Reconciliation of Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as EBITDA, Adjusted EBITDA and Adjusted EBITDA per share. These non-IFRS measures are not recognized under IFRS and, accordingly, users are cautioned that these measures should not be construed as alternatives to net income determined in accordance with IFRS. The non-IFRS measures presented are unlikely to be comparable to similar measures presented by other issuers.

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA Per Share

The Company defines EBITDA as earnings before depreciation and amortization, interest expense, amortization of lease incentives, and income tax expense (recovery). Adjusted EBITDA is defined as EBITDA before transaction and restructuring costs, change in fair value of contingent consideration liability, impairments, change in fair

value of derivative financial instruments, gain on disposal of property and equipment and stock based compensation expense. Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by revenue. Adjusted EBITDA per share is defined as Adjusted EBITDA divided by the weighted outstanding shares on both a basic and diluted basis. The Company believes that Adjusted EBITDA is a meaningful financial metric as it measures cash generated from operations which the Company can use to fund working capital requirements, service interest and principal debt repayments and fund future growth initiatives. The Company's agreements with senior lenders are structured with certain financial performance covenants which includes Adjusted EBITDA as a key component of the covenant calculations. EBITDA and Adjusted EBITDA are not recognized measures under IFRS.

	For the three month periods ended December 31,		For the years ended December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
(thousands of Canadian Dollars)				
Income (loss) from continuing operations	(8,415)	2,621	(34,388)	(4,381)
Depreciation and amortization	1,984	1,843	7,579	7,324
Interest expense	2,069	1,485	7,385	9,902
Amortization of lease incentives	(11)	134	19	128
Income tax expense (recovery)	1,030	(1,511)	(3,326)	(2,509)
EBITDA from operations	(3,343)	4,572	(22,731)	10,464
Transaction and restructuring costs	1,662	1,919	4,377	6,006
Change in fair value of contingent consideration liability	341	(4,352)	922	(6,047)
Goodwill impairment	—	—	18,500	—
Share-based compensation expense	1,856	282	3,003	938
Change in fair value of derivative financial instruments	105	(90)	(45)	(534)
Loss (gain) on disposal of property and equipment	12	(2)	14	47
Adjusted EBITDA from continuing operations	633	2,329	4,040	10,874
Adjusted EBITDA from discontinued operations	1,310	1,729	6,685	6,640
Adjusted EBITDA	1,943	4,058	10,725	17,514
Weighted average number of shares - basic and diluted	204,993	200,641	203,603	194,782
Adjusted EBITDA per share from continuing operations- basic and diluted	\$0.003	\$0.01	\$0.02	\$0.06
Adjusted EBITDA per share - basic and diluted	\$0.01	\$0.02	\$0.05	\$0.09

Proposed Transactions

There are no significant proposed transactions which have not been disclosed.