



**Management's Discussion and Analysis**  
**For the Three and Nine Months ended September 30, 2010**

## Management's Discussion and Analysis

### For the three and nine months ended September 30, 2010

The following is a discussion of the consolidated financial position and the results of operations of Centric Health Corporation, ("Centric" or "Company") for the three and nine month periods ended September 30, 2010 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 unaudited interim consolidated financial statements and notes thereto for the three and nine months ended September 30, 2010 "Unaudited Consolidated Interim Financial Statements" and the audited consolidated financial statements for the years ended December 31, 2009 and 2008 "Audited Consolidated Financial Statements". The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The following MD&A is presented as of November 11, 2010. All amounts are disclosed in thousands of Canadian dollars. Additional information about the Company, including the Annual Information Form, is available on Sedar.com.

### Forward-Looking Statements

Certain statements in this 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 "*Business Outlook*" and "*Risks and Uncertainties*" and other statements concerning the Company's 2010 objectives, strategies to achieve those objectives, 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 highly competitive nature of the Company's industry, government regulation and funding 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 information contained in this MD&A is based upon 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.

## Highlights during and subsequent to the Quarter ended September 30, 2010

- Net income increased 49% to \$1.3 million in the third quarter of 2010, as compared to \$0.9 million in the third quarter of 2009.
- EBITDA<sup>1</sup> increased by 33% or \$0.5 million to \$2.2 million, as compared to \$1.7 million in the third quarter of 2009. EBITDA year-to-date has increased by 106% from the same period in 2009 to \$6.6 million from \$3.2 million.
- Basic earnings per share increased 47% to \$0.022 in the third quarter of 2010, from \$0.015 in the third quarter of 2009.
- The Company established its homecare division through acquisition of Community Advantage Rehabilitation Inc., a company providing services in occupational therapy, physiotherapy, social work and dietetics.
- Subsequent to September 30, 2010, the Company acquired, in partnership, the assets of two retail pharmacies, thereby establishing the Company's pharmacy division.
- The Company obtained \$10 million in subordinated debt from an associated entity of one of its major shareholders, \$5 million is convertible into shares of the Company, has a warrants attached to purchase 1 million shares at a price of \$1 per share and accrues 6% interest per annum, the remaining \$5 million accrues interest at 7% per annum and has no conversion feature attached.

## Business Outlook

Management is pleased with the performance of the underlying businesses. Both Centric Disability Management and Active Health have seen solid growth in revenues and profitability. The Company expects continued growth in the base businesses in the following quarters along with growth that will come from the acquisition of Community Advantage Rehabilitation Inc. that closed on September 1, 2010 and with acquisition of the pharmacy business that closed subsequent to the end of the quarter. Centric Health is pursuing a deliberate strategy of organic growth, mergers and acquisitions and expansion opportunities. This expansion and diversification is primarily into healthcare sectors which, not only demonstrate compelling growth prospects in and of themselves, but also present synergies, rationalization and cross-pollination benefits in creating meaningful stakeholder value with an overarching focus on quality care to our patients.

## Business Overview

Centric Health Corporation is a Canadian healthcare investment company. Through the Company's subsidiaries, Don Mills Surgical Unit ("DMSU"), Centric Disability Management, Community Advantage Rehabilitation Inc. ("CAR"), and Active Health Services ("Active Health"), Centric provides a variety of surgical procedures, disability management, third-party medical assessment, physiotherapy network management, homecare and physiotherapy services to long-term care and retirement home residents. Centric is pursuing a diversified approach and an acquisition strategy to become Canada's premier healthcare company that provides innovative solutions centered on patients and healthcare professionals.

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<sup>1</sup> See EBITDA section for definition and calculation of this amount.

## **Subsidiary Overview**

### ***Centric Disability Management***

The Centric Disability Management group comprises the divisions of Work Able Centres and Direct Health Solutions. The group is a preferred vendor to a number of Canadian insurance companies and the group's occupational rehabilitation programs are accredited by the Commission on Accreditation of Rehabilitation Facilities ("CARF").

Work Able provides specialized medical assessment and rehabilitation services to individuals disabled as a result of work-related or motor vehicle injuries, as well as those suffering short and long-term disabilities that affect their ability to function and work.

Work Able has positioned itself as a premier provider of disability management services. Work Able pioneered the use of work-simulated facilities in Canada to support functional recovery and promote return to work; and, over the past three years has created a formidable catastrophic injury assessment division. Work Able presently has four facilities currently occupying a total of 28,795 square feet of leased space in Toronto, Barrie and Mississauga, Ontario as well as Halifax, Nova Scotia. These facilities are equipped with state of the art assessment, rehabilitation and work simulation tools and systems.

Direct Health provides medical assessment and rehabilitation services to the insurance industry and employers primarily in Ontario and Eastern Canada. It maintains leased offices in Halifax, Nova Scotia, Fredericton, New Brunswick and Toronto, Ontario. Direct Health will continue to provide vocational assessment and rehabilitation services and expand its client base of insurance, corporate and government entities in its current localities.

Work Able and Direct Health employs 86 staff and approximately 300 independent third party consultants including physicians from across a number of specialty practice areas, psychologists, occupational health nurses, physiotherapists, occupational therapists, cognitive behavioral therapists, kinesiologists and vocational evaluators.

### ***Active Health***

On May 29, 2009, the Company acquired the assets and businesses of Active Health Management Inc. and Brenda Rusnak Clinics Inc. and operates these as part of the rehabilitation and disability management business segment in its subsidiary, Active Health Services Ltd. and herein referred to as "Active Health".

Active Health specializes in high quality rehabilitation services that focus on physiotherapy, assessment services, physiotherapy network management and elder care. The elder care business provides physiotherapy services to over 278 retirement, assisted-living and long-term care homes operating in the province of Ontario through its network of independent consultants. The majority of these services are paid for by the Ontario Ministry of Health and Long Term Care ("MOHLTC").

Active Health also operates a health clinic in Toronto that provides rehabilitation treatment services including assessments, educational programs, on-going functional testing and treatments for pain management, movement and exercise.

### ***DMSU***

DMSU is an accredited, Toronto-based hospital operating since 1966 under Ontario's Private Hospitals Act and licensed by the MOH. DMSU specializes in a mix of surgical services.

Affiliated surgeons maintain active practices within their specialty areas and are members of the Royal College of Physicians and Surgeons. DMSU provides services from a leased 7,381 square foot Toronto-based facility that includes two fully-equipped operating theatres, one procedure room, 20 overnight stay beds, a central nursing station and physician's offices. During the quarter ended September 30, 2010, the Company began operations of the sleep clinic at the DMSU location. DMSU retains full-time, part-time and casual nursing and administrative staff of 18 people.

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

The Company completed the acquisition of CAR on September 1, 2010. CAR performs home care services in the community funded by the Community Care Access Centre ("CCAC") through the MOHLTC. CAR engages occupational therapists, physiotherapists, registered dietitians and social workers to fulfill these services. CAR operates in the Central East CCAC, with an office in Whitby, Ontario.

The Company purchased 100% of the outstanding shares in CAR through its wholly-owned subsidiary, Alegro Health Partners ("AHP").

**Selected Financial Information**

The following selected financial information for the three and nine months ended September 30, 2010, and 2009, has been derived from the Company's unaudited interim consolidated financial statements and should be read in conjunction with those financial statements and related notes.

	Three months ended September 30			Nine months ended September 30		
	2010	2009	% Chg	2010	2009	% Chg
Revenue	\$ 15,755	\$ 12,431	27%	\$ 45,422	\$ 23,727	91%
Expenses:						
Direct costs	11,599	9,314		33,114	16,824	
General and administrative expenses	2,036	1,477		6,061	3,817	
Amortization	139	126		363	233	
	13,774	10,917		39,538	20,873	
Income before interest expense	1,981	1,514		5,884	2,854	
Interest expense	165	190		580	250	
Income before income taxes	1,816	1,324		5,304	2,604	
Income taxes	490	436		1,658	859	
Net income for the period	\$ 1,326	\$ 888	49%	\$ 3,646	\$ 1,745	109%
EBITDA	\$ 2,230	\$ 1,671	33%	\$ 6,599	\$ 3,196	106%
Earnings per share – basic	\$ 0.022	\$ 0.015	47%	\$ 0.060	\$ 0.037	62%
– diluted	\$ 0.019	\$ 0.013	46%	\$ 0.051	\$ 0.033	55%
Total assets	\$ 36,781	\$ 31,645		\$ 36,781	\$ 31,645	
Long-term loan (excluding current portion)	\$ 5,631	\$ 7,068		\$ 5,631	\$ 7,068	

## Reconciliation of Non-GAAP Measures

### EBITDA

The Company defines EBITDA as earnings before interest expense, income taxes, and amortization and excludes stock-based compensation expense. EBITDA is not a recognized measure under GAAP. Management believes that EBITDA is a useful financial metric as it assists in determining the ability to generate cash from operations. Investor's should be cautioned that EBITDA should not be construed as an alternative to net income as determined in accordance with GAAP.

	Three months ended September 30		Nine months ended September 30,	
	2010	2009	2010	2009
Net income	\$ 1,326	\$ 888	\$ 3,646	\$ 1,745
Amortization	139	126	363	233
Interest expense	165	190	580	250
Stock-based compensation	110	31	352	109
Income taxes	490	436	1,658	859
EBITDA	\$ 2,230	\$ 1,671	\$ 6,599	\$ 3,196

## Results of Operations (all amounts in thousands of Canadian dollars)

### Revenues

Revenue for the three months ended September 30, 2010 increased by \$3,324 to \$15,755 over the comparable quarter last year. Sales attributable to Active Health for the comparable quarter increased by \$1,878 to \$9,351, due to an increase in the number of long-term care homes serviced as well as increased utilization in current homes. Sales for the disability management division increased by \$1,059 for the quarter, driven primarily by a higher number of assessments. Revenue for DMSU increased by \$15 over the comparable quarter last year. Sales for the CAR business, newly acquired on September 1, 2010, amounted to \$372.

Revenue for the nine month period increased by \$21,695 of which \$13,112 was generated by Active Health in the five-month period which is not comparable to 2009 results, before the Active acquisition, and \$5,323 was generated in the four-month period in 2009 after Active's acquisition. The disability management division generated additional revenue of \$2,856. Revenue from DMSU increased by \$32 over the comparable period in the prior year. The balance of the revenue growth of \$372 was generated from CAR.

### Expenses

Direct costs include third-party consultant fees associated with the assessment and physiotherapy businesses and salaries and wages of employees working directly in each business segment.

Direct costs for the three months ended September 30, 2010 were \$11,599, which was an increase of \$2,285 over the comparable quarter in the prior year driven by the increase in revenues. For the quarter, direct costs expressed as a percentage of revenue were comparable at 75% for the same quarter in the current and prior years.

Direct costs as a percentage of revenue for the nine month period ended September 30, 2010 are higher than the prior year which reflects the higher cost structure for the Active Health business as a percentage of revenue which was owned for only four months in 2009 but is consistent with the percentage of revenue in the three-month period ended September 30, 2010.

General and administrative expenses for the three months ended September 30, 2010 were \$2,036 which was \$559 higher than the comparable period in the prior year. This increase was driven by higher salary and benefit costs of

\$192 associated with the Active Health business, implementation of HST in the current quarter and an increase in non-cash stock-based compensation expense of \$79 relating to the vesting of options granted at the end of 2009. The implementation of HST negatively affects the Company as services are largely HST-exempt. Therefore expenses that attract HST are absorbed by the Company as operating costs.

General and administrative expenses for the nine month period ended September 30, 2010 were \$2,246 higher than the comparable period in the prior year. This increase was due to higher general and administrative expenses associated with the Active Health business, an increase of \$243 in stock-based compensation expense over the prior year, and an increase in the contractual fees of \$291 relating to the services performed by Global Healthcare Investments and Solutions, Inc. ("GHIS"), as explained in Note 7 to the unaudited interim consolidated financial statements.

Amortization was higher during the three and nine month period ended September 30, 2010 due to the amortization of the assets acquired in the Active Health acquisition in May 2009.

Interest expense for the current quarter and the nine month period ended September 30, 2010, relates to the long-term loan that was arranged at the end of May 2009, for the purchase of the Active Health and includes \$69 of amortization of loan arrangement costs (\$35 for the quarter ended September 30, 2009) and year-to-date amortization of \$214 of loan arrangement costs (\$47 for 2009). The total interest expense for the quarter and the nine month period ended September 30, 2010, was \$182 and \$597 respectively, (2009 - \$190 and \$250) and has been shown net of \$17 in interest income for the period. Interest expense has decreased in the current quarter, as compared to last year, due to the reduction in principal on the long-term loan.

### ***Income Taxes***

During the quarter ended September 30, 2010, the Company filed claims to obtain credits under the Federal and Provincial Scientific Research and Experimental Development programs ("SRED"). The claims filed will recover approximately \$75 in taxes paid for the 2009 tax year as well as provide \$158 in tax credits to be used against 2010 income taxes.

Future income tax liabilities recognized on the consolidated balance sheet reflect tax on temporary differences expected to reverse in 2011 and beyond.

### **Liquidity and Capital Resources** (all amounts in thousands of Canadian dollars)

The main working capital requirement relates to the financing of accounts receivable which are primarily from the MOHLTC, other government agencies, employers and insurance companies. Such receivables totaled \$10,609 at September 30, 2010. These receivables are, to a large extent, financed by accounts payable to third-party service providers who typically are paid when payment for the related services is received from the Company's customers. The Company also has a revolving operating credit facility. The Company consistently generates positive operating cash flows which are not subject to significant seasonal fluctuations and incurs minimal bad debt expense.

Management believes that the cash generated by existing business will be sufficient in the short to medium term for existing general corporate expenditures and working capital purposes. Longer-term capital requirements will depend on many factors including the number and size of acquisitions completed, the rate of growth of the Company's client base, and the cost of expanding in new markets for existing and new healthcare services. In order to meet such capital requirements, the Company may require additional public or private financing in the capital markets for debt or equity financing. In addition, it may seek strategic partners to finance new business opportunities. It is contemplated that this would include a private placement to healthcare professionals. Subsequent to the end of the quarter, the Company entered into a renegotiated long-term floating rate financing arrangement with its bank effectively increasing its operating facility to \$20,000. The bank used the new facility to fund the pharmacy acquisition.

At September 30, 2010, the Company had total cash on hand of \$325, a decrease of \$1,271 during the quarter ended September 30, 2010 (2009 increase of \$1,025). The changes in cash balances are explained below.

### ***Operating Activities***

For the three months ended September 30, 2010, cash provided by operating activities was \$910 compared to \$1,722 for fiscal 2009. Non-cash working capital moved to a use of funds of \$871 from a source of \$359 in the same quarter of the prior year. Receivables increased by \$846 reflecting the higher sales in the quarter and a higher days sales outstanding ratio. Days sales outstanding ratio were 61 days in the third quarter, up from 57 days for the second quarter of 2010. Accounts payable and accrued liabilities decreased by \$495 for the three months ended September 30, 2010 which reflects payments according to terms with our vendors.

On a year to date basis, cash provided by operating activities increased \$1,468 to \$3,709 in 2010 from \$2,240 in 2009. Growth in the disability management business and the acquisition of the Active Health business, are the main factors behind this increase.

### ***Investing Activities***

During the quarter ended September 30, 2010, the Company advanced \$360 (exclusive of related fees) to PrevCan Inc. ("Intervent"), a prevention and wellness company, pursuant to a definitive loan agreement that was signed during the year. The loan bears interest at 6% per annum. The Company has agreed to lend Intervent up to \$2,000 by way of scheduled advances on a periodic basis until April 1, 2011. The loan matures on May 1, 2011, when it will be repaid either in cash or in shares of Intervent, at Intervent's option. The total amount advanced to Intervent as of September 30, 2010 is \$920.

The three and nine month period ended September 30, 2010 reflects the acquisition of CAR for approximately \$623, with cash consideration of \$500 and transaction costs of approximately \$123. The assets acquired were approximately \$24 in property and equipment, \$250 in working capital and \$339 for a government contract classified as a finite-lived intangible asset. Additional consideration in the form of common shares of the Company is contingent upon CAR achieving earnings targets over the next three years. In addition, the Company made a deposit of \$350 to the vendor on the acquisition of the pharmacy assets which closed subsequent to September 30, 2010. The three and nine month period ended September 30, 2009 reflects the acquisition of Active Health for approximately \$20 million as well as the repayment of the outstanding debenture owing to GHIS Capital Inc. of \$750.

The Company invested in intangible software of \$162 and purchased an indefinite-life license to operate a sleep clinic for \$266 for a total of \$388 invested in licenses and intangible assets in the quarter ended September 30, 2010.

The purchase of property and equipment used in the business during the quarter ended September 30, 2010 amounted to \$119, compared to \$146 in fiscal 2009 and was in line with management's expectations. For the nine month period ended September 30, 2010, the purchase of property and equipment amounted to \$407 (2009 - \$362).

### ***Financing Activities***

During 2009, to complete the acquisition of Active Health, the Company obtained two sources of funding which included an \$11,000 loan from a chartered Canadian bank and the issuance of shares and warrants through a private placement to an existing shareholder in the amount of \$6,765. The long-term loan was repayable over a five-year term, with quarterly payments of \$550. Since inception of the loan, the Company has made principal repayments of \$2,750 of which \$550 was paid in the current quarter. Interest was fixed on this loan by way of an interest rate swap. Interest is payable monthly at an annual rate of 5.65%.

Subsequent to September 30, 2010, the Company renegotiated its lending facility replacing the fixed term loan with a revolving term facility in the amount of \$20,000 at a floating rate based on the prime rate plus two percent.

At September 30, 2010, the Company was in compliance with all of the covenants on its long-term and operating loan facilities.

## **Equity**

### ***Share Capital***

During the quarter ended September 30, 2010, option holders exercised 25,000 options to purchase a similar number of shares at a weighted average exercise price per share of \$0.275.



As at September 30, 2010, the Company had total shares outstanding of 61,165,095 compared to 61,015,095 at September 30, 2009. There were also 20,500,000 warrants outstanding as at September 30, 2010 entitling the holder to acquire 20,500,000 common shares at an exercise price of \$0.33 per share.

As at September 30, 2010, there were a total of 5,275,000 options outstanding to purchase an equivalent number of common shares, with a weighted average exercise price of \$0.58, expiring at various dates through 2020. The number of exercisable options at September 30, 2010 was 1,960,417 with a weighted average exercise price of \$0.29.

As at the date of this report, November 11, 2010, the number of shares outstanding is 61,165,095; the number of options outstanding is 4,975,000; and, the number of warrants outstanding is 20,500,000.

## Summary of Quarterly Results

Selected financial information for each of the last eleven quarters is as follows:

	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
<b><u>Fiscal year 2010</u></b>				
Revenue and other income		\$ 15,755	\$ 15,927	\$ 13,740
Net income		\$ 1,326	\$ 1,318	\$ 1,002
Income per share				
– basic		\$ 0.022	\$ 0.022	\$ 0.016
– diluted		\$ 0.019	\$ 0.019	\$ 0.013
<b><u>Fiscal year 2009</u></b>				
Revenue and other income	\$ 12,896	\$ 12,431	\$ 7,027	\$ 4,269
Net income (loss)	\$ (105)	\$ 888	\$ 518	\$ 339
Income (loss) per share				
– basic	\$ (0.002)	\$ 0.015	\$ 0.011	\$ 0.009
– diluted	\$ (0.001)	\$ 0.013	\$ 0.011	\$ 0.009
<b><u>Fiscal year 2008</u></b>				
Revenue and other income	\$ 4,595	\$ 3,635	\$ 3,836	\$ 3,729
Net income	\$ 264	\$ 225	\$ 259	\$ 204
Income per share				
– basic and diluted	\$ 0.007	\$ 0.006	\$ 0.007	\$ 0.005

The summary of quarterly results is illustrative of the overall growth in the business from 2008 through 2010. The last five quarters show the positive organic growth of the business after the acquisition of Active Health.

The Company's revenues in the third quarter historically show a small seasonal reduction from Centric Disability Management which is reflective of the seasonality of accident rates. The higher volume of accidents during the winter weather months translates into higher patient referrals and revenues in the first and second quarters whereas the warmer weather in spring and summer contribute to lower accident rates which is reflected in our revenues in the third quarter. This seasonality is adequately planned for as is supported by the increase in net income from the second quarter to the third quarter of 2010. Revenues from Active Health and DMSU have remained steady quarter to quarter. Income per share has been consistently strong from the second to the third quarters of 2010.

Quarterly results in the comparative period show the impact of the acquisition of Active Health on the overall results of the Company. The third quarter of 2009 includes the results of Active Health incorporated for the full three months as compared to the second quarter which includes only one month of results contributing to the overall performance of the Company.

## Contractual Commitments

For the three months ended September 30, 2010, other than the Intervent loan obligation described earlier, there have been no significant changes in the Company's contractual obligations. For a summary of the Company's contractual obligations, see page 9 of the Company's MD&A for the year ended December 31, 2009.

## Off-Balance Sheet Arrangements

As at September 30, 2010, the Company has no off-balance sheet arrangements.

## Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer (collectively the "Certifying Officers") have evaluated the design and effectiveness of the Company's disclosure controls and procedures as of September 30, 2010 and have concluded that such disclosure controls and procedures were effective. In addition, the Certifying Officers are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company used the COSO control framework. For the quarter ended September 30, 2010, the Certifying Officers have concluded that the design of the Company's internal controls over financial reporting and procedures were effective as at September 30, 2010.

## Transactions with Related Parties

A summary of the transactions with related parties for the three and nine month periods ended September 30, 2010 and 2009 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
General and administrative expenses:				
Brenras	\$ -	\$ 90	\$ -	\$ 270
GHIS	\$ 182	\$ 152	\$ 542	\$ 247
	\$ 182	\$ 242	\$ 542	\$ 517
Interest incurred on the GHIS Capital debenture:	\$ -	\$ -	\$ -	\$ 22

Included in accounts payable and accrued liabilities at September 30, 2010 and December 31, 2009, are \$118 and \$254, respectively, due to GHIS.

Brenras Holdings Inc. ("Brenras") is wholly-owned by a significant shareholder and former director of the Company. Brenras provided management services to the Company in 2009.

GHIS and entities controlled by the shareholders of GHIS own approximately 52% of the issued and outstanding common shares of the Company as at September 30, 2010. GHIS provided strategic and business development consulting services to the Company for the quarter ended September 30, 2010. During 2009, the consulting agreement with GHIS was amended to include a performance fee of 1% of the Company's market capitalization (computed on a trailing twelve month weighted average basis) provided the market capitalization exceeds a minimum threshold of \$20,000. The performance fee incurred in the three and nine month periods ended September 30, 2010 amounted to \$98 and \$310, respectively (2009 - \$74 and \$92), and is included in accounts payable and accrued liabilities.

GHIS Capital Inc. ("GHIS Capital") is related to GHIS by virtue of common control. Concurrent with the closing of the acquisition of the acquired businesses referred to in Note 3, to the 2009 Audited Consolidated Financial

Statements, the Company redeemed the convertible debenture at its face amount of \$750 and also agreed to issue to GHIS Capital a warrant, expiring on May 29, 2012, entitling it to subscribe for and purchase 25% of the issued and outstanding common shares, as calculated immediately following the exercise, of Alegro Health Partners Inc. ("AHP"), a wholly-owned subsidiary of the Company, upon the payment of \$33. Other aspects of the contractual arrangements between the Company, GHIS and GHIS Capital remained essentially unchanged including the agreement that AHP will be the entity that would pursue and conduct all new business opportunities in the healthcare sector distinct from the Company's current rehabilitation, medical assessment and related activities.

### **Critical Accounting Estimates**

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 assessment of impairment of goodwill and intangible assets.

#### ***Goodwill and Intangible Assets Valuation***

The Company performs an impairment assessment of goodwill and intangible assets on an annual basis and at any other time if events or circumstances make it possible that impairment may have occurred. Determining whether impairment 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. Management tests the valuation of goodwill and intangibles as at December 31 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.

Management has determined, using the above-noted valuation method, that there was no impairment to goodwill or the intangible assets as at September 30, 2010 or December 31, 2009.

## Future Accounting Changes

### *International Financial Reporting Standards ("IFRS")*

In March 2009, the Accounting Standards Board of Canada confirmed that effective January 1, 2011, IFRS will replace GAAP for publicly accountable enterprises such as Centric Health Corporation. At this time, the Company's management is progressing through its conversion plan and is documenting and quantifying the differences between GAAP and IFRS. The Company anticipates a significant increase in disclosure resulting from the adoption of IFRS.

The Company has established and followed a project plan in order to present its consolidated financial statements under IFRS starting in 2011. Since the comparative figures will also have to be presented under IFRS, the changeover date to IFRS will in fact be January 1, 2010. The changeover project commenced in 2009 and includes the following steps:

- Planning of convergence project and diagnosis of financial statement items and policies to evaluate;
- Identification and documentation of differences between GAAP and IFRS;
- Impact analysis, in particular, changes required to existing accounting policies, information systems and internal controls;
- Design of business, reporting, and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at January 1, 2010, fiscal 2010 and thereafter;
- Regular reporting to the Audit Committee; and,
- Monitoring the International Accounting Standard Board's activities on an ongoing basis, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and GAAP. However, since all potential changes to IFRS that will be effective as at December 31, 2011 are not yet known, any conclusions drawn at this point in time are preliminary in nature.

Centric's progress to date has resulted in the following:

### *Disclosure Controls and Procedures*

During fiscal 2010, the Company has presented its project plan and preliminary findings to the audit committee. The audit committee will be responsible for approving the policy choices under IFRS, as well as its choices of transitional exemptions under the provisions of IFRS 1 "First time adoption of IFRS". In addition to quarterly updates on the transition project, the audit committee will be presented with the preliminary opening balance sheet reflecting the policy choices and the estimates made at the transition date. A preliminary version of the note on the impact of transition and the template financial statements is currently in preparation. Preliminary IFRS interim financial statements of the first interim period of fiscal 2011 will be prepared for internal use and presented to senior management and the audit committee before the end of fiscal 2010.

Key stakeholders and investors will continue to be updated on a regular basis and through the Company's quarterly filings and investor presentations.

### *Business Activities*

The Company is reviewing all of its current potential acquisitions to assess how these transactions will be impacted by the transition to IFRS. In particular, the Company is assessing the impact from the different treatment of contingent consideration and transaction costs. Impact from the adoption of IFRS is being considered as these transactions progress. The Company is also considering the impact of IFRS on its long-term loan covenants and discussing changes to its covenant restrictions with its lender to accommodate for the impact on operating results from the transition to IFRS. The Company does not expect any significant changes in its overall strategy from the impact of the transition to IFRS.

### *Information Technology*

Management does not expect a significant impact on its method of capturing, recording and communicating its financial information through information technology. During 2009, the Company implemented a fixed asset sub ledger system to accommodate componentization and better maintain fixed asset records. There are no other significant changes planned for the Company's information technology infrastructure relating to the transition to IFRS.

### *Internal Controls over Financial Reporting*

As the transition project progresses and policy choices are finalized, appropriate changes to ensure an adequate level of internal control is achieved may be required. Additional internal controls regarding financial reporting may be required to meet the specific activities and requirements surrounding the first-time adoption. Management will oversee implementation of additional procedures to ensure appropriate internal controls are maintained over financial reporting. Management will conduct ongoing reviews of internal control requirements and effectiveness throughout the transition period.

### *Training*

Training sessions have been provided to key personnel of the Company to ensure a sufficient level knowledge of IFRS policies is achieved to implement the transition. Management and the audit committee have been briefed on the major differences and expected impact of these differences that may affect the Company's financial statements. Additional specific training will be given to staff during the fiscal 2010 year based on changes in accounting policies, systems and processes.

### *Accounting Policies*

Management has identified and documented the differences between IFRS and GAAP and policy choices for its identified financial statement areas using component evaluations. Management is quantifying the differences and assessing the impact on its opening balance sheet, internal controls and business activities. In management's performance of component evaluations, it has found that additional documentation for disclosure will be required for a number of financial statement areas. Management has designed a process to identify additional required disclosures and data compilation to ensure IFRS requirements are being met.

Management has assessed that the measurement and recording of transactions will not be significantly impacted by the implementation of IFRS.

The relevant standards applicable to the Company's accounting policies that the Company has evaluated and preliminary conclusions are as follows:

#### *IFRS 1- First-time Adoption of IFRS*

Management has reviewed its available exemptions under IFRS 1 – First time adoption of IFRS and has concluded that it will use the following elective exemptions: business combinations and share-based payments. Business combinations completed prior to transition will not be restated retroactively. In particular, the acquisition of the Active Health business incurred significant transaction costs that were included in the purchase price allocation. Under IFRS these costs would be expensed as incurred.

Additional transaction costs incurred prior to transition, particularly those incurred in 2010 have been deferred under Canadian GAAP and will be expensed upon transition to IFRS. The Company will take a charge of approximately \$64 against retained earnings upon transition.

The Company issues stock options to its employees and directors as deferred compensation. Stock options are the only share-based payments issued in the business. Awards vested prior to January 1, 2010 will not be revalued under the exemption. Unvested awards at the transition date are approximately 4,000,000 options with a total fair value of approximately \$2 million to be expensed over their vesting term. The adjustment to retained earnings due to the change in accounting policy is not expected to be material.

The Company uses a third party, web-based software to manage its valuation and amortization of options expense. This software also provides for support to quantify the effects of transition to IFRS. Management has arranged training for its staff using the system.

#### *IFRS 2 – Share-based Payments*

The Company records expense based on the fair value of stock options issued. Under GAAP, the Company amortized this expense using a straight-line method over the life of the options. IFRS 2 allows only the graded vesting method to amortize the expense of share-based payments. This change in policy will recognize the expense associated with stock options over the vesting period, accounting for historical forfeiture rates, estimated life of the options and the number of awards vested in each period. The impact on operations is that the expense associated with share-based payments is recognized on an accelerated schedule in comparison with a straight-line amortization of the expense.

#### *IFRS 3 - Business Combinations*

Management has identified that treatment of business combinations under IFRS may result in an impact on its results of operations when compared to its current policies under GAAP. Costs attributed to an acquisition transaction are expensed in the period incurred under IFRS whereas under GAAP, the Company defers and allocates such costs to identifiable assets or goodwill in the purchase equation once the acquisition has closed. In addition, management identified that if future business combinations contain contingent consideration, the treatment under IFRS will involve measurement and recognition of subsequent changes in the fair value of contingent consideration that differs from the treatment under GAAP. Management is maintaining detailed records of its deferred charges relating to potential acquisitions to quantify this difference in its interim financial statements in 2011. Transaction costs deferred in the three and nine months ended September 30, 2010 were \$41 and \$190, respectively.

The acquisition of CAR in the third quarter of 2010 contains contingent consideration that was not recognized in the financial statements under GAAP. In our transitional statements in 2011 the contingent consideration will be valued and recorded in the Company's financial statements with changes in its fair value being recognized on a quarterly basis.

#### *IAS 12 – Income Taxes*

The Company recognizes that, under IFRS, its basis for recognition, measurement and presentation of future tax assets and liabilities may differ from its current presentation under GAAP. The adoption of IFRS will not affect the internal processes over calculating and maintaining tax records as this data is readily available using current systems.

#### *IAS 16 – Property and Equipment*

Under IFRS, after initial recognition, it is possible to measure property and equipment using the cost model or the revaluation model. The revaluation model is not allowed under GAAP. The Company will continue to use the cost model. Adoption of IAS 16 will not impact the Company's financial statements on transition.

#### *IAS 18 – Revenue Recognition*

Management has performed its component evaluation on IAS 18 – Revenue Recognition and has concluded that there will be no significant impact on revenue recognition from the transition to IFRS. To ensure completeness of its evaluation, management analyzed each source of the Company's revenue and determined whether it meets the criteria for revenue recognition under IFRS. Management concluded that all sources of currently recognized revenue under GAAP would continue to be recognized under IFRS.

#### *IAS 24 – Related Party Disclosures*

Centric does not believe that adoption of IAS 24 will have a significant impact on its financial statements. The required additional disclosures will be addressed by implementing procedures to identify related parties under the new standard and ensure that all required information is gathered appropriately and disclosed in its financial statements.

### *IAS 36 – Impairments*

The Company is required to perform impairment tests on its intangible assets and goodwill on an annual basis. Management has identified its cash-generating units on the basis of independent cash inflows for impairment testing. Impairment tests were performed at December 31, 2009 on the intangible assets recorded on its balance sheet at that time. Impairment tests for IFRS have begun. Management expects some impairment of its intangible assets to be recognized on transition to IFRS. The amount of any impairment at this time is an estimate.

### *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*

IAS 37 requires a provision to be recognized when: (i) there is a present obligation as a result of a past transaction or event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. The threshold for recognition of a provision under GAAP is higher than under IFRS. It is possible, therefore, that some contingent liabilities which would not have been recognized under GAAP may meet the criteria for recognition as a provision under IFRS.

In addition to the sections noted above, there are generally more extensive presentation and disclosure requirements under IFRS as compared to GAAP. These have been noted in the Company's detailed analysis and are included in the draft IFRS interim 2011 financial statements.

On an ongoing basis, management is monitoring the International Accounting Standard Board's activities, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and GAAP. However, since all potential changes to IFRS that will be effective as at December 31, 2011 are not yet known, any conclusions drawn at this point in time are preliminary in nature.

## **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).

### ***Government Regulation and Funding***

The Company operates businesses in an environment in which insurance regulation, policy and funding decisions play a key role. Changes in regulation and funding structures related to third party disability management services, or their interpretation and application, could adversely affect the business, financial condition and results of operation of the Company.

Insurance legislation changes enacted on September 1, 2010 will affect the business as the disability management division operates within the regulatory jurisdiction of these legislative changes. Auto insurance guidelines for accident benefit claims have changed and fees for independent medical assessments are now capped. This change may negatively affect the financial results of this division.

Healthcare service providers in Canada are subject to various governmental regulation and licensing requirements and, as a result, Active Health, CAR and the DMSU 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 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 two business units.

### ***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 and the costs of administration. 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 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 and lack of investor appetite, 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.

### ***Unpredictability and Volatility of Share Price***

Market prices for securities of healthcare services companies may be volatile. Factors such as announcements of new contracts, innovations, new commercial and medical products, patents, the development of proprietary rights by the Company or others, regulatory actions, publications, quarterly financial results of the Company or of competitors of the Company, public concerns over health, future sales of securities by the Company or by current shareholders and other factors could have a significant effect on the market price and volatility of the common shares of the Company.

The securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Company's shares.

### ***Significant Shareholders***

There are significant shareholders of the Company that may be long-term holders of the common shares in the Company. As such, the trading volumes in the common shares of the Company and liquidity may be low. In addition, relatively low liquidity may adversely affect the price at which the common shares of the Company trade on the listed market.

### ***Litigation***

During the first quarter of 2010, the former CEO of the Company commenced a claim seeking compensation for termination of her employment and additional compensation amounts. The Company has initiated a defense against this claim and management believes that it has adequate provisions in its financial statements to provide for the settlement of this action.

## **Subsequent Events**

The following events occurred subsequent to September 30, 2010:

- i. The Company acquired the business and assets of two retail pharmacies, in partnership, located in Newmarket, Ontario. The total consideration for the acquisition was approximately \$7,000 plus the cost of inventory of \$270.
- ii. The Company finalized a revolving operating facility for up to \$20 million through a Canadian chartered bank. The advances accrue interest at a rate of prime plus 2% to be paid monthly in arrears. This renegotiated financing replaces the long-term loan and operating facility described in Note 11 to the Company's interim consolidated financial statements.
- iii. The Company entered into an agreement with Jamon Investments LLC ("Jamon"), an associated entity of Dr. Jack Shevel, Chairman and Interim CEO of the Company and President of GHIS, the largest shareholder of the Company. The agreement provides for Jamon to loan \$10 million, in two tranches, in subordinated debt to the Company. Of this amount, \$5 million is convertible at the lender's option at \$1.00 per share, bears interest at 6% per annum and contains a warrant for 1 million shares at \$1.00 per share for a three year term. The remaining \$5 million loan bears 7% interest for a term of one year callable at the option of the lender should the Company raise greater than \$10 million through an equity placement.

## **Additional Information**

Additional information about the Company, including the Annual Information Form, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).





**Unaudited Interim Consolidated Financial Statements  
For the Three and Nine Months Ended  
September 30, 2010 and 2009**

**Centric Health Corporation**  
**Interim Consolidated Balance Sheets**

(unaudited)

(in thousands of Canadian dollars)

	September 30, 2010	December 31, 2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 325	\$ 1,196
Accounts receivable	10,609	7,500
Accrued receivables	1,477	932
Loan receivable (note 4)	974	-
Deposit (note 17)	350	-
Prepaid expenses	172	161
	<b>13,907</b>	<b>9,789</b>
Property and equipment (note 9)	1,183	952
Intangible assets (note 10)	7,254	6,627
Goodwill (note 10)	14,182	14,213
Deferred acquisition costs	255	64
	<b>\$ 36,781</b>	<b>\$ 31,645</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 7)	\$ 7,397	\$ 5,967
Income taxes payable	909	90
Future income taxes – current	-	19
Current portion of long-term loan (note 11)	2,200	2,200
	<b>10,506</b>	<b>8,276</b>
Long-term loan (note 11)	5,631	7,068
Interest rate swap liability (note 11)	161	121
Future income tax liability	592	265
Deferred lease inducement	75	92
	<b>6,459</b>	<b>7,546</b>
<b>Shareholders' Equity</b>		
Share capital (note 12)	8,983	8,921
Warrants (note 12)	2,957	2,957
Contributed surplus (note 12)	1,491	1,166
Accumulated other comprehensive loss (note 13)	(161)	(121)
Retained earnings	6,546	2,900
	<b>19,816</b>	<b>15,823</b>
	<b>\$ 36,781</b>	<b>\$ 31,645</b>
<b>Contingencies (note 16)</b>		

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

**Centric Health Corporation**  
**Interim Consolidated Statements of Operations**

*(unaudited)*

*(in thousands of dollars, except per share amounts)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenue</b>	<b>\$ 15,755</b>	\$ 12,431	<b>\$ 45,422</b>	\$ 23,727
<b>Expenses</b>				
Direct costs	<b>11,599</b>	9,314	<b>33,114</b>	16,824
General and administrative expenses (note 7)	<b>2,036</b>	1,477	<b>6,061</b>	3,816
Amortization	<b>139</b>	126	<b>363</b>	233
	<b>13,774</b>	10,917	<b>39,538</b>	20,873
<b>Income before interest expense</b>	<b>1,981</b>	1,514	<b>5,884</b>	2,854
Interest expense (net) (note 11)	<b>165</b>	190	<b>580</b>	250
<b>Income before income taxes</b>	<b>1,816</b>	1,324	<b>5,304</b>	2,604
Income taxes – current	<b>348</b>	136	<b>1,350</b>	559
– future	<b>142</b>	300	<b>308</b>	300
	<b>490</b>	436	<b>1,658</b>	859
<b>Net income for the period</b>	<b>\$ 1,326</b>	\$ 888	<b>\$ 3,646</b>	\$ 1,745
<b>Basic earnings per common share (note 12)</b>	<b>\$ 0.022</b>	\$ 0.015	<b>\$ 0.060</b>	\$ 0.037
<b>Diluted earnings per common share (note 12)</b>	<b>\$ 0.019</b>	\$ 0.013	<b>\$ 0.051</b>	\$ 0.033

**Weighted Average Number of Common Shares Outstanding (in thousands) (note 12)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Basic</b>	<b>61,152</b>	60,817	<b>61,117</b>	47,542
<b>Diluted</b>	<b>71,034</b>	68,716	<b>70,968</b>	52,128

**Centric Health Corporation**  
**Interim Consolidated Statements of Comprehensive Income**

*(unaudited)*

*(in thousands of dollars)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income for the period	<b>\$ 1,326</b>	\$ 888	<b>\$ 3,646</b>	\$ 1,745
Other comprehensive loss for the period (note 13)	<b>(25)</b>	(154)	<b>(40)</b>	(154)
<b>Comprehensive income for the period</b>	<b>\$ 1,301</b>	\$ 734	<b>\$ 3,606</b>	\$ 1,591

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

**Centric Health Corporation**  
**Interim Consolidated Statements of Shareholders' Equity**  
*(unaudited)*  
*(in thousands of Canadian dollars)*

	<u>Share Capital</u>		Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Number of Shares	Amount					
<b>Balance at December 31, 2008</b>	<b>36,581,762</b>	<b>\$ 3,928</b>	<b>\$ –</b>	<b>\$ 1,268</b>	<b>\$ –</b>	<b>\$ 1,260</b>	<b>\$ 6,456</b>
Issued on acquisition of Active Health	3,333,333	1,000	–	–	–	–	1,000
Private placement	20,500,000	3,754	–	–	–	–	3,754
Issuance of warrants	–	–	2,957	–	–	–	2,957
Options exercised	600,000	239	–	(84)	–	–	155
Deferred compensation expensed in the period	–	–	–	90	–	–	90
Non-controlling interest	–	–	–	(158)	–	–	(158)
Other comprehensive loss (note 13)	–	–	–	–	(154)	–	(154)
Net income for the period	–	–	–	–	–	1,745	1,745
<b>Balance at September 30, 2009</b>	<b>61,015,095</b>	<b>\$ 8,921</b>	<b>\$ 2,957</b>	<b>\$ 1,116</b>	<b>\$ (154)</b>	<b>\$ 3,005</b>	<b>\$ 15,845</b>
<b>Balance at December 31, 2009</b>	<b>61,015,095</b>	<b>\$ 8,921</b>	<b>\$ 2,957</b>	<b>\$ 1,166</b>	<b>\$ (121)</b>	<b>\$ 2,900</b>	<b>\$ 15,823</b>
Options exercised	150,000	62	–	(27)	–	–	35
Deferred compensation expensed in the period (note 12)	–	–	–	352	–	–	352
Other comprehensive loss (note 13)	–	–	–	–	(40)	–	(40)
Net income for the period	–	–	–	–	–	3,646	3,646
<b>Balance at September 30, 2010</b>	<b>61,165,095</b>	<b>\$ 8,983</b>	<b>\$ 2,957</b>	<b>\$ 1,491</b>	<b>\$ (161)</b>	<b>\$ 6,546</b>	<b>\$ 19,816</b>

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

**Centric Health Corporation**  
**Interim Consolidated Statements of Cash Flows**  
*(unaudited)*  
*(in thousands of dollars)*

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
<b>Cash provided by</b>				
<b>Operating activities</b>				
Net income for the period	\$ 1,326	\$ 888	\$ 3,646	\$ 1,745
Items not affecting cash:				
Amortization of property and equipment	78	126	193	233
Amortization of finite-lived intangible assets	61	–	170	–
Amortization of loan arrangement costs	69	35	214	47
Leasehold inducement	(5)	(17)	(17)	(17)
Future income taxes	142	300	308	300
Stock-based compensation	110	31	352	109
Changes in non-cash working capital items (note 8)	(871)	359	(1,157)	(177)
<b>Cash provided by operating activities</b>	<b>910</b>	<b>1,722</b>	<b>3,709</b>	<b>2,240</b>
<b>Investing activities</b>				
Loan advances	(414)	–	(974)	–
Increase in deferred acquisition costs	(41)	–	(190)	–
Acquisition of businesses (note 5)	(623)	(272)	(623)	(19,900)
Acquisition of license	–	–	(266)	–
Deposit on future acquisition (note 17)	(350)	–	(350)	–
Lease inducement	–	115	–	115
Proceeds from disposition of equipment	–	–	7	–
Purchase of intangible assets	(90)	–	(162)	–
Acquisition of non-controlling interest (note 7)	–	–	–	(750)
Purchase of property and equipment	(119)	(146)	(407)	(362)
<b>Cash used in investing activities</b>	<b>(1,637)</b>	<b>(303)</b>	<b>(2,965)</b>	<b>(20,897)</b>
<b>Financing activities</b>				
Proceeds of long-term loan, net of loan arrangement costs (note 10)	–	–	–	10,285
Repayment of long-term loan (note 11)	(550)	(550)	(1,650)	(550)
Issuance of common shares and warrants, net of issue costs (note 12)	6	156	35	6,866
Decrease in non-controlling interest	–	–	–	(21)
<b>Cash (used in) provided by financing activities</b>	<b>(544)</b>	<b>(394)</b>	<b>(1,615)</b>	<b>16,580</b>
<b>(Decrease) increase in cash</b>	<b>(1,271)</b>	<b>1,025</b>	<b>(871)</b>	<b>(2,077)</b>
<b>Cash, beginning of period</b>	<b>1,596</b>	<b>900</b>	<b>1,196</b>	<b>4,002</b>
<b>Cash, end of period</b>	<b>\$ 325</b>	<b>\$ 1,925</b>	<b>\$ 325</b>	<b>\$ 1,925</b>

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

## ***Centric Health Corporation***

### **Notes to Interim Consolidated Financial Statements**

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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#### **1. Business of the Company**

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Centric Health Corporation (the “Company”) is incorporated under the *Canada Business Corporations Act* and is listed on the Toronto Stock Exchange. The Company’s principal business is providing healthcare services to its customers.

The results of operations presented in the 2009 year-to-date comparative financial statements include four months of operations for the Active Health business acquired on May 29, 2009.

#### **2. Basis of Presentation**

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These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements and accordingly do not include all disclosures required for annual financial statements. These unaudited interim consolidated financial statements follow the same significant accounting policies as the Company’s audited annual consolidated financial statements for the year ended December 31, 2009 and accordingly, should be read in conjunction with those annual financial statements and the notes thereto. All amounts disclosed are in thousands of Canadian dollars, unless otherwise stated.

The accompanying unaudited interim consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. The results of operations and cash flows for the current periods as presented are not necessarily indicative of the results to be expected for the full year.

#### **3. Significant Accounting Policies**

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##### **Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounting elements which require management to make subjective estimates and assumptions include revenue recognition, estimated useful lives of property and equipment, valuation of goodwill and intangible assets and valuation of options and warrants. Actual results could differ from those estimates.

##### **Reclassifications**

Certain 2009 amounts have been reclassified to conform to the current period’s presentation.

## ***Centric Health Corporation***

### **Notes to Interim Consolidated Financial Statements**

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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### **3. Significant Accounting Policies - Continued**

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#### **New Accounting Policies**

There have been no new accounting policies adopted in these unaudited interim consolidated financial statements. The volume of accounting pronouncements being introduced by the Canadian Institute of Chartered Accountants applicable to the Company has reduced significantly pending the transition to International Financial Reporting Standards (“IFRS”).

#### **Future Accounting Changes**

There have been no additional future accounting changes from those reported in Note 2 to the 2009 audited consolidated financial statements.

### **4. Loan Receivable**

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On May 17, 2010, the Company entered into an agreement with PrevCan Inc. (“Intervent”) to advance \$2,000 on a periodic basis through to April 1, 2011. The advances bear interest at 6% per annum which is payable nine months in arrears. The loan and any accrued interest is due May 11, 2011 payable at Intervent’s option in either cash or shares in Intervent, representing a 50% fully diluted interest. In the event the loan is repaid through the issuance of Intervent shares, the Company’s cost of acquiring the shares will be represented by the loan amount and any unpaid interest. If Intervent elects to repay the loan with its shares, the Company is required to pay certain additional contingent consideration in the form of Company warrants and shares if certain financial performance criteria are met by Intervent in the year ending December 31, 2011.

The Company can demand repayment of the loan on or prior to May 2011. In such circumstances, the Company would be required to provide the full amount of the loan advances and Intervent would repay the loan by issuing shares in Intervent representing a 50% fully diluted interest.

As of September 30, 2010, the Company had advanced Intervent \$920 and has included in the loan receivable, fees related to the loan of \$54. The fees will be amortized over the balance of the term of the loan. Interest accrued to September 30, 2010 is \$19.

## **Centric Health Corporation**

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **5. Acquisitions**

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During the quarter ended September 30, 2010, the Company completed the acquisition of 100% of the shares in Community Advantage Rehabilitation Inc. ("CAR"). CAR provides occupational therapy and home care to adults and children in Ontario.

The purchase price of the acquisition includes \$500 in cash paid upon closing. The balance of the purchase price, of up to \$1,500, is to be paid by the issuance of shares and warrants of the Company and is contingent on the performance of CAR achieving certain predetermined earnings targets over the next three years. The contingent consideration is not valued at this time as future performance cannot be reasonably estimated.

The purchase price was recorded as follows:

#### **Purchase Price**

Cash consideration	\$	500
Transaction costs		113
		<hr/>
	\$	613

#### **Fair Value of Net Assets Acquired**

Current assets	\$	435
Property and equipment		24
CCAC <sup>1</sup> Contract (note 10)		339
		<hr/>
		798
Current liabilities		(185)
		<hr/>
	\$	613

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<sup>1</sup> CCAC - Community Care Access Centre, a community based program for healthcare services through the Ontario Ministry of Health and Long-term Care.



## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## 6. Capital Management

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The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the continuation and expansion of its operations. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include share capital, warrants and the stock option component of its shareholders' equity as well as its long-term loan and operating facility (see Note 11). In order to maintain or adjust its capital structure, the Company may seek additional financing through the issuance of new equity securities, the exercise of outstanding stock options and warrants or the issuance of debt instruments such as operating or term loans.

The Company is not subject to any externally imposed capital requirements and has adequate capital on hand to meet future obligations.

Management reviews its capital management requirements on an ongoing basis and believes this approach, given the relative size of the Company, is reasonable. There were no changes to the Company's approach to capital management during the three month and nine months ended September 30, 2010.

## 7. Related Party Transactions and Balances

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In the normal course of operations, the Company has entered into certain related party transactions which have been measured at the respective exchange amounts, being the consideration established and agreed to by the related parties.

A summary of the transactions with related parties for the three and nine month periods ended September 30, 2010 and 2009 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
General and administrative expenses:				
Brenras	\$ -	\$ 90	\$ -	\$ 270
GHIS	\$ 182	\$ 152	\$ 542	\$ 247
	<u>\$ 182</u>	<u>\$ 242</u>	<u>\$ 542</u>	<u>\$ 517</u>
Interest incurred on the GHIS Capital debenture:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22</u>

Included in accounts payable and accrued liabilities at September 30, 2010 and December 31, 2009, are \$118 and \$254, respectively, due to Global Healthcare Investments and Solutions, Inc. ("GHIS").

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

#### 7. Related Party Transactions and Balances - Continued

GHIS and entities controlled by the shareholders of GHIS own approximately 52% of the issued and outstanding common shares of the Company as of September 30, 2010. GHIS provides strategic and business development consulting services to the Company. The existing consulting agreement with GHIS was amended in May, 2009. Under the terms of the consulting agreement which has an initial term of three years renewable annually thereafter, the monthly consulting fee is \$20. In addition, a performance fee component whereby GHIS will be entitled to an annual fee of 1% of the Company's market capitalization (computed on a trailing twelve month weighted average basis) provided the market capitalization exceeds a minimum threshold amount of \$20,000. The performance fee incurred in the three and nine months ended September 30, 2010, totalled \$98 and \$310, respectively.

GHIS Capital Inc. ("GHIS Capital") is related to GHIS by common control. GHIS Capital was the holder of a convertible debenture issued by the Company in 2007. Concurrent with the closing of the acquisition of the Active Health Management business, the Company redeemed the convertible debenture at its face amount of \$750 and also agreed to issue to GHIS Capital a warrant, expiring on May 29, 2012, entitling it to subscribe for and purchase 25% of the issued and outstanding common shares, as calculated immediately following the exercise, of Alegro Health Partners Inc. ("AHP"), a wholly-owned subsidiary of the Company, upon the payment of \$33.

Other aspects of the contractual arrangements between the Company, GHIS and GHIS Capital remained essentially unchanged including the agreement that AHP will be the entity that would pursue and conduct all new business opportunities in the healthcare sector distinct from the Company's current rehabilitation, medical assessment and related activities.

Brenras Holdings Inc. ("Brenras") is wholly-owned by a significant shareholder and former director of the Company. Brenras provided management services to the Company in 2009.

#### 8. Supplementary Disclosure of Cash Flow Information

(a) The net changes in non-cash working capital are comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Accounts receivable	\$ (846)	\$ (21)	\$ (2,715)	\$ 29
Accrued receivables	256	466	(545)	210
Prepaid expenses	19	(17)	8	(100)
Accounts payable and accrued liabilities	(495)	(29)	1,244	(453)
Income taxes payable	195	(40)	851	137
	<u>\$ (871)</u>	<u>\$ 359</u>	<u>\$ (1,157)</u>	<u>\$ (177)</u>

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## 8. Supplementary Disclosure of Cash Flow Information - Continued

(b) Other supplementary cash flow information:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Income taxes paid	\$ 146	\$ 178	\$ 493	\$ 423
Interest paid	\$ 113	\$ 155	\$ 383	\$ 203

## 9. Property and Equipment

At September 30, 2010

	Cost	Accumulated Amortization	Net Book Value
Office furniture, fixtures and equipment	\$ 702	\$ 498	\$ 204
Work simulation and facility equipment	1,268	1,268	–
Computer equipment	1,229	888	341
Medical equipment	510	401	109
Physiotherapy equipment	361	88	273
Leasehold improvements	293	37	256
	\$ 4,363	\$ 3,180	\$ 1,183

At December 31, 2009

	Cost	Accumulated Amortization	Net Book Value
Office furniture, fixtures and equipment	\$ 653	\$ 475	\$ 178
Work simulation and facility equipment	1,268	1,268	–
Computer equipment	1,162	806	356
Medical equipment	401	391	10
Physiotherapy equipment	272	41	231
Leasehold improvements	186	9	177
	\$ 3,942	\$ 2,990	\$ 952

## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## **10. Intangible Assets and Goodwill**

	<b>September 30, 2010</b>	December 31, 2009
Indefinite-life intangible assets:		
Hospital license	\$ 1,147	\$ 1,147
Government billing privileges	4,105	4,105
Sleep clinic license	265	–
	<b>5,517</b>	5,252
Finite-life intangible assets:		
Software (net of amortization)	1,692	1,500
Amortization of software	(294)	(125)
	<b>1,398</b>	1,375
CCAC contract	339	–
Total intangible assets	<b>7,254</b>	6,627
Goodwill	<b>14,182</b>	14,213
Total intangible assets and goodwill	<b>\$ 21,436</b>	\$ 20,840

The Company acquired software, billing privileges and goodwill in its acquisition of Active Health. The Company valued the software based on its replacement value and performed an impairment test on the software at December 31, 2009. The Company determined there was no impairment. The software is being amortized over its estimated useful life of seven years. As at September 30, 2010, accumulated amortization on software was \$294 (December 31, 2009 - \$125).

In the quarter ended September 30, 2010, the goodwill was adjusted for an accrual recorded on acquisition of Active Health which was \$31 higher than what was ultimately paid.

The Community Care Access Centre (“CCAC”) contract acquired in the CAR acquisition has a useful life of approximately 5 years.

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## 11. Long-Term Loan and Operating Facility

### Long-term loan

On May 29, 2009, the Company obtained a long-term loan of \$11,000 from a major Canadian chartered bank in conjunction with the acquisition of the Active Health Management business. The loan is repayable over a five-year period, with quarterly principal payments of \$550. Interest on the loan is payable monthly. All of the assets of the Company have been pledged as collateral for this loan. The annual rate of interest is 5.65% fixed by an interest swap over the term of the loan. The floating rate of the loan was prime plus 3.25%.

The long-term loan is presented net of loan arrangement costs. These costs are amortized over the term of the loan through accretion resulting in increasing interest expense recorded on the consolidated balance sheets over time. At September 30, 2010, the net long-term loan (including the current portion) is \$7,831 (face value of \$8,250 less \$419 of unamortized loan arrangement costs).

Interest expense is presented net of \$17 of interest income for the quarter and nine months ended September 30, 2010.

Interest expense comprises the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest expense on long-term loan	\$ 113	\$ 155	\$ 383	\$ 203
Amortization of loan arrangement costs	69	35	214	47
Interest income	(17)	–	(17)	–
	<u>\$ 165</u>	<u>\$ 190</u>	<u>\$ 580</u>	<u>\$ 250</u>

The Company is in compliance with the financial covenants of the long-term loan as at September 30, 2010.

The Company uses derivative financial instruments to manage current and future risks related to interest rate fluctuations associated with its loan.

As at September 30, 2010, the Company used an interest rate swap as part of its program for managing the combination of fixed and variable interest rates of its debt and the corresponding aggregate cost of borrowing. The interest rate swap expires concurrently with the maturity of the loan. The interest rate swap involves an exchange of interest payments without an exchange of principal underlying the interest payments, and is accounted for as an asset or liability depending on the position with respect to the variable portion of the swap and the corresponding gain or loss is recorded in other comprehensive income.

The Company formally documents and designates its derivative financial instrument as a cash-flow hedge on its bank loan. The Company evaluated the effectiveness of its hedging transaction at the time of the establishment of the instrument. As at September 30, 2010, the fair value of the hedge was approximately \$161 in favour of the counterparty.

## **Centric Health Corporation**

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **11. Long-Term Loan and Operating Facility - Continued**

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### **Operating facility**

The Company renegotiated its financing agreement with its bank effective in the fourth quarter. The renegotiated financing modifies the term loan and operating credit facility with a revolving facility for \$20,000, as described more fully in note 17.

## **12. Shareholders' Equity and Earnings per Share**

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### **Common shares**

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

Nine months ended September  
30,  
(\$ thousands, except share amounts)

	2010		2009	
	Shares	Stated value	Shares	Stated value
<b>Common shares</b>				
Balance, beginning of period	<b>61,015,095</b>	<b>\$ 8,921</b>	36,581,762	\$ 3,928
Issued through private placement	–	–	20,500,000	3,754
Issued for acquisition	–	–	3,333,333	1,000
Stock options exercised	<b>150,000</b>	<b>62</b>	600,000	239
Balance, end of period	<b>61,165,095</b>	<b>\$ 8,983</b>	61,015,095	\$ 8,921

During the three months ended September 30, 2010, 25,000 shares were issued upon exercise of options at a weighted average exercise price of \$0.275.

## **Centric Health Corporation**

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **12. Shareholders' Equity and Earnings per Share - Continued**

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### **Issuance of common shares and warrants**

On May 29, 2009, the Company issued a private placement of 20,500,000 common shares and an equal number of warrants to GHIS for a total consideration of \$6,765. Each warrant entitles the holder to acquire one common share for a period of 5 years from that date, at a price of \$0.33 per share. The warrants have been fair valued at \$2,981 (less transaction costs of \$24) using the Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	115%
Risk-free interest rate	2.5%
Expected life in years	5
Share price at date of issue	\$0.260
Fair value of warrant	\$0.145

The GHIS warrants were the only warrants outstanding as at September 30, 2010.

### **Issuance of stock options and deferred stock-based compensation**

On September 2, 2010, the Company granted 150,000 stock options to three directors to purchase an equivalent number of common shares at an exercise price of \$0.72 per share to be vested at the rate of 25% per annum over a four - year period.

The value assigned to options, granted in the period, of \$62, was calculated using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	85% - 111%
Risk-free interest rate	1.28% - 1.83%
Expected option term	5 years

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## 12. Shareholders' Equity and Earnings per Share - Continued

Deferred stock-based compensation not yet charged to income is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$ 1,687	\$ 271	\$ 1,752	\$ 133
Options granted in the period as deferred compensation	62	20	239	217
Expensed in the period	(110)	(50)	(352)	(109)
Balance, end of period	\$ 1,639	\$ 241	\$ 1,639	\$ 241

The outstanding and exercisable stock options are as follows:

Nine months ended September 30,	2010		2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
<b>Common share options</b>				
Balance, beginning of period	5,075,000	\$ 0.58	3,050,000	\$ 0.28
Options granted	500,000	0.69	825,000	0.37
Options exercised	(150,000)	0.24	(600,000)	0.26
Options cancelled	(150,000)	1.03	(100,000)	0.34
Balance, end of period	5,275,000	\$ 0.58	3,175,000	\$ 0.31
Exercisable, end of period	1,960,417	\$ 0.29	1,568,750	\$ 0.26

### Earnings per share

Earnings per share for the three and nine months ended September 30, 2010 and 2009 have been calculated on the basis of net income for the period divided by the weighted average number of common shares outstanding during each period. Diluted earnings per share, for all periods presented, were calculated based on the weighted average number of common shares outstanding and stock options and warrants outstanding during the period. The weighted average calculation was based on the treasury stock method and included all options and warrants that were issued at prices lower than the market price of the Company's common shares at the respective period ends.



## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## 12. Shareholders' Equity and Earnings per Share - Continued

The following table illustrates the dilutive effect of the outstanding options and warrants for the three and nine months ended September 30, 2010 and 2009:

(amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic weighted average shares outstanding	<b>61,152</b>	60,817	<b>61,117</b>	47,543
Dilutive effect of options	<b>1,134</b>	1,199	<b>1,121</b>	810
Dilutive effect of warrants	<b>8,748</b>	6,700	<b>8,730</b>	3,775
Diluted shares outstanding	<b>71,034</b>	68,716	<b>70,968</b>	52,128

## 13. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) ("AOCI") is comprised of the fair value of the interest rate swap on the long-term loan. The fair value is calculated as the difference in the net present value of the future cash flows to and from the counterparty. Unrealized gains and losses will accumulate in the AOCI until the maturity of the loan.

Changes in the components of AOCI are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
AOCI at beginning of period	\$ (136)	\$ -	\$ (121)	\$ -
OCI for the period due to fair value of interest rate swap	(25)	(154)	(40)	(154)
AOCI at end of period	\$ (161)	\$ (154)	\$ (161)	\$ (154)

## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **14. Financial Instruments**

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The Company's financial instruments consist of cash, accounts receivable, accrued receivables, loan receivable, accounts payable, accrued liabilities and its long-term loan. In addition, the Company has an interest rate swap.

### **Fair value**

#### *Fair value hierarchy*

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

- *Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities*

This level of the hierarchy includes cash. The fair value of the instrument is quoted prices where they represent those at which regularly and recently occurring transactions take place.

- *Level 2: Inputs that are observable for the assets or liabilities either directly or indirectly*  
This level of the hierarchy includes derivative financial instruments with major Canadian chartered banks. These instruments are recorded at fair value on the settlement date. The fair value of derivatives used to manage interest rate exposure is calculated through discounting future expected cash flows using the BA - based swap curve. Since the BA - based swap curve is an observable input, these financial instruments are considered Level 2.

- *Level 3: Inputs for assets or liabilities that are not based on observable market data.*  
The Company has no financial instruments in this category.

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

#### 14. Financial Instruments - Continued

Due to their short-term maturities, the fair value of financial instruments approximates their carrying value. The long-term loan is the subject of an interest rate swap which is discussed in interest rate risk, below. The interest rate swap is recorded at its fair value at September 30, 2010. The aggregate of the face value of the long-term loan plus the recorded amount of the interest rate swap approximates the fair value of the loan.

Financial instruments at fair value:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	\$ 325	\$ –	\$ –	\$ 325
Financial liabilities:				
Interest rate swap	\$ –	\$ 161	\$ –	\$ 161

#### Financial instruments not carried at fair value

The following table presents the carrying value of the Company's financial instruments which are not carried at fair value in the balance sheet. The following financial instruments are carried at historical cost or amortized historical cost:

	September 30, 2010 Carrying value	December 31, 2009 Carrying value
Accounts receivable	\$ 10,609	\$ 7,500
Loan receivable	974	–
Total financial assets	\$ 11,583	\$ 7,500
Accounts payable and accrued liabilities	\$ 7,397	\$ 5,967
Long-term loan	7,831	9,269
Total financial liabilities	\$ 15,228	\$ 15,236

## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **14. Financial Instruments - Continued**

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### **Credit risk and economic dependence**

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 and accrued receivables are from the Workplace Safety and Insurance Board, government agencies, employers and insurance companies. The Company has experienced minimal bad debt expense.

The Company derived approximately 45% (December 31, 2009 – 35%) of its revenue for the nine month period ended September 30, 2010 from billings through its government billing privileges and as such, is subject to concentration risk associated with its reliance on such billings. For the quarter ended September 30, 2010, the revenue derived through its government billing privileges was approximately 46% of its total revenue.

The Company's cash is held through a chartered Canadian bank. The Company is not exposed to significant credit risk arising from its financial instruments.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity by assuring that there is sufficient working capital to meet short and long-term business requirements after taking into account cash flows from operations and the Company's holding of cash and net working capital. The Company also strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances.

Management forecasts cash flows for its current and subsequent fiscal years to project future financial requirements. At September 30, 2010, the Company had \$325 (December 31, 2009 – \$1,196) of cash and a current portion of its long-term loan of \$2,200 (December 31, 2009 – \$2,200) with a long-term portion of \$5,631 (December 31, 2009 – \$7,068). In accordance with the CICA Handbook Section 3855, the long-term debt is presented net of loan arrangement costs of \$419, which are being amortized using the effective interest method over the term of the loan. The Company anticipates that it will generate sufficient cash flow from operations over the next year to meet the repayment of the current portion of its long-term loan and current liabilities.

### **Interest rate risk**

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. The Company has a revolving operating facility of \$4,000 (December 31, 2009 – \$4,000) which has a variable interest rate based on prime. As at September 30, 2010 and December 31, 2009, the Company had not drawn on the facility.

The Company also has a five-year loan with a face value of \$8,250 which carries a floating interest rate, based on the prime rate, plus 3.25%, which has, through the swap (see Note 11), resulted in a fixed interest rate of 5.65%. The Company has entered into an interest rate swap on its loan to mitigate interest rate risk on its loan.

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

#### 14. Financial Instruments - Continued

The fair value of the swap effective as at September 30, 2010, recorded as a derivative financial instrument amounts to \$161 in favour of the counterparty. This amount is recorded as a liability and is accumulated in other comprehensive income.

##### Currency risk

Virtually all of the Company's transactions are denominated in Canadian dollars. At September 30, 2010, the Company held no financial instruments that were denominated in other than Canadian currency.

#### 15. Segmented Reporting

The operations of the Company and its consolidated subsidiaries are comprised of two reportable operating segments referred to as (i) Rehabilitation, Assessment, Eldercare and Home Care ("Rehabilitation") and (ii) Surgical Centres. The Rehabilitation segment includes the businesses of Centric Disability Management Inc., Active Health Services Inc., and Community Advantage Rehabilitation Inc. which provide medical assessment and rehabilitation services to the community, insurance industry and employers, physiotherapy network management, and physiotherapy services to long-term care and retirement homes. The Surgical Centres segment consists of the businesses of Don Mills Surgical Unit ("DMSU") and the Centric Sleep Clinic. DMSU is an accredited, Toronto-based hospital specializing in a mix of ambulatory and surgical services and includes the Centric Sleep Clinic assets. The general and administrative costs included in the "Corporate" column have not been allocated to the two segments and generally represent the costs associated with a publicly - listed entity.

##### As at and for the three months ended September 30, 2010

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centres	Corporate	Total
Revenue	\$ 15,399	\$ 356	\$ -	\$ 15,755
Amortization	\$ 132	\$ 5	\$ 2	\$ 139
Interest	\$ -	\$ -	\$ 165	\$ 165
Income (loss) before interest and income taxes	\$ 2,018	\$ (26)	\$ (11)	\$ 1,981
Capital expenditures	\$ 393	\$ 71	\$ -	\$ 522
Goodwill	\$ 14,182	\$ -	\$ -	\$ 14,182
Total assets	\$ 33,087	\$ 2,004	\$ 1,690	\$ 36,781

##### As at and for the three months ended September 30, 2009

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centres	Corporate	Total
Revenue	\$ 12,093	\$ 338	\$ -	\$ 12,431
Amortization	\$ 91	\$ -	\$ 35	\$ 126
Interest	\$ -	\$ -	\$ 190	\$ 190
Income (loss) before interest and income taxes	\$ 2,241	\$ 65	\$ (792)	\$ 1,514
Capital expenditures	\$ 111	\$ 1	\$ 34	\$ 146
Goodwill	\$ 14,213	\$ -	\$ -	\$ 14,213
Total assets	\$ 31,394	\$ 94	\$ 322	\$ 31,810

## **Centric Health Corporation**

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **15. Segmented Reporting - Continued**

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### **Nine months ended September 30, 2010**

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centres	Corporate	Total
Revenue	\$ 44,386	\$ 1,036	\$ –	\$ 45,422
Amortization	\$ 345	\$ 13	\$ 5	\$ 363
Interest	\$ –	\$ –	\$ 580	\$ 580
Income (loss) before interest and income taxes	\$ 6,582	\$ (50)	\$ (648)	\$ 5,884
Capital expenditures	\$ 683	\$ 399	\$ 66	\$ 1,148

### **Nine months ended September 30, 2009**

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centres	Corporate	Total
Revenue	\$ 22,725	\$ 1,002	\$ –	\$ 23,727
Amortization	\$ 159	\$ –	\$ 74	\$ 233
Interest	\$ –	\$ –	\$ 250	\$ 250
Income (loss) before interest and income taxes	\$ 5,219	\$ 159	\$ (2,524)	\$ 2,854
Capital expenditures	\$ 284	\$ 4	\$ 74	\$ 362

## **16. Contingencies**

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During the first quarter of 2010, the former CEO of the Company commenced a claim seeking compensation for termination of her employment and additional compensation amounts. The Company has initiated a defense against this claim and management believes that it has adequate provisions in its financial statements to provide for the settlement of this action.

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 management, these claims and lawsuits in the aggregate, even if adversely settled, would not have a material impact on the Company's financial position, results of operations or cash flows.

## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **17. Subsequent Events**

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The following events occurred subsequent to September 30, 2010:

- i. The Company acquired the business and assets of two retail pharmacies, in partnership, located in Newmarket, Ontario. The total consideration for the acquisition was approximately \$7,000 plus the cost of inventory of \$270.
- ii. The Company finalized a revolving operating facility for up to \$20 million through a Canadian chartered bank. The advances accrue interest at a rate of prime plus 2% to be paid monthly in arrears. The renegotiated financing replaces the long-term loan and operating facility described in Note 11 to these interim consolidated financial statements.
- iii. The Company entered into an agreement with Jamon Investments LLC (“Jamon”), an associated entity of Dr. Jack Shevel, Chairman and Interim CEO of the Company and President of GHIS, the largest shareholder of the Company. The agreement provides for Jamon to loan \$10 million, in two tranches, in subordinated debt to the Company. Of this amount, \$5 million is convertible at the lender’s option at \$1.00 per share, bears interest at 6% per annum and contains a warrant for 1 million shares at \$1.00 per share for a three year term. The remaining \$5 million loan bears 7% interest for a term of one year callable at the option of the lender should the Company raise greater than \$10 million through an equity placement.



**Unaudited Interim Consolidated Financial Statements  
For the Three and Nine Months Ended  
September 30, 2010 and 2009**



**Centric Health Corporation**  
**Interim Consolidated Balance Sheets**

(unaudited)

(in thousands of Canadian dollars)

	September 30, 2010	December 31, 2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 325	\$ 1,196
Accounts receivable	10,609	7,500
Accrued receivables	1,477	932
Loan receivable (note 4)	974	-
Deposit (note 17)	350	-
Prepaid expenses	172	161
	<b>13,907</b>	<b>9,789</b>
Property and equipment (note 9)	1,183	952
Intangible assets (note 10)	7,254	6,627
Goodwill (note 10)	14,182	14,213
Deferred acquisition costs	255	64
	<b>\$ 36,781</b>	<b>\$ 31,645</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 7)	\$ 7,397	\$ 5,967
Income taxes payable	909	90
Future income taxes – current	-	19
Current portion of long-term loan (note 11)	2,200	2,200
	<b>10,506</b>	<b>8,276</b>
<b>Long-term loan (note 11)</b>	<b>5,631</b>	<b>7,068</b>
<b>Interest rate swap liability (note 11)</b>	<b>161</b>	<b>121</b>
<b>Future income tax liability</b>	<b>592</b>	<b>265</b>
<b>Deferred lease inducement</b>	<b>75</b>	<b>92</b>
	<b>6,459</b>	<b>7,546</b>
<b>Shareholders' Equity</b>		
Share capital (note 12)	8,983	8,921
Warrants (note 12)	2,957	2,957
Contributed surplus (note 12)	1,491	1,166
Accumulated other comprehensive loss (note 13)	(161)	(121)
Retained earnings	6,546	2,900
	<b>19,816</b>	<b>15,823</b>
	<b>\$ 36,781</b>	<b>\$ 31,645</b>
<b>Contingencies (note 16)</b>		

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

**Centric Health Corporation**  
**Interim Consolidated Statements of Operations**

(unaudited)

(in thousands of dollars, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenue</b>	<b>\$ 15,755</b>	\$ 12,431	<b>\$ 45,422</b>	\$ 23,727
<b>Expenses</b>				
Direct costs	<b>11,599</b>	9,314	<b>33,114</b>	16,824
General and administrative expenses (note 7)	<b>2,036</b>	1,477	<b>6,061</b>	3,816
Amortization	<b>139</b>	126	<b>363</b>	233
	<b>13,774</b>	10,917	<b>39,538</b>	20,873
<b>Income before interest expense</b>	<b>1,981</b>	1,514	<b>5,884</b>	2,854
Interest expense (net) (note 11)	<b>165</b>	190	<b>580</b>	250
<b>Income before income taxes</b>	<b>1,816</b>	1,324	<b>5,304</b>	2,604
Income taxes – current	<b>348</b>	136	<b>1,350</b>	559
– future	<b>142</b>	300	<b>308</b>	300
	<b>490</b>	436	<b>1,658</b>	859
<b>Net income for the period</b>	<b>\$ 1,326</b>	\$ 888	<b>\$ 3,646</b>	\$ 1,745
<b>Basic earnings per common share (note 12)</b>	<b>\$ 0.022</b>	\$ 0.015	<b>\$ 0.060</b>	\$ 0.037
<b>Diluted earnings per common share (note 12)</b>	<b>\$ 0.019</b>	\$ 0.013	<b>\$ 0.051</b>	\$ 0.033

**Weighted Average Number of Common Shares Outstanding (in thousands) (note 12)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Basic</b>	<b>61,152</b>	60,817	<b>61,117</b>	47,542
<b>Diluted</b>	<b>71,034</b>	68,716	<b>70,968</b>	52,128

**Centric Health Corporation**  
**Interim Consolidated Statements of Comprehensive Income**

(unaudited)

(in thousands of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income for the period	<b>\$ 1,326</b>	\$ 888	<b>\$ 3,646</b>	\$ 1,745
Other comprehensive loss for the period (note 13)	<b>(25)</b>	(154)	<b>(40)</b>	(154)
<b>Comprehensive income for the period</b>	<b>\$ 1,301</b>	\$ 734	<b>\$ 3,606</b>	\$ 1,591

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

**Centric Health Corporation**  
**Interim Consolidated Statements of Shareholders' Equity**  
*(unaudited)*  
*(in thousands of Canadian dollars)*

	<u>Share Capital</u>		Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Number of Shares	Amount					
<b>Balance at December 31, 2008</b>	<b>36,581,762</b>	<b>\$ 3,928</b>	<b>\$ –</b>	<b>\$ 1,268</b>	<b>\$ –</b>	<b>\$ 1,260</b>	<b>\$ 6,456</b>
Issued on acquisition of Active Health	3,333,333	1,000	–	–	–	–	1,000
Private placement	20,500,000	3,754	–	–	–	–	3,754
Issuance of warrants	–	–	2,957	–	–	–	2,957
Options exercised	600,000	239	–	(84)	–	–	155
Deferred compensation expensed in the period	–	–	–	90	–	–	90
Non-controlling interest	–	–	–	(158)	–	–	(158)
Other comprehensive loss (note 13)	–	–	–	–	(154)	–	(154)
Net income for the period	–	–	–	–	–	1,745	1,745
<b>Balance at September 30, 2009</b>	<b>61,015,095</b>	<b>\$ 8,921</b>	<b>\$ 2,957</b>	<b>\$ 1,116</b>	<b>\$ (154)</b>	<b>\$ 3,005</b>	<b>\$ 15,845</b>
<b>Balance at December 31, 2009</b>	<b>61,015,095</b>	<b>\$ 8,921</b>	<b>\$ 2,957</b>	<b>\$ 1,166</b>	<b>\$ (121)</b>	<b>\$ 2,900</b>	<b>\$ 15,823</b>
Options exercised	150,000	62	–	(27)	–	–	35
Deferred compensation expensed in the period (note 12)	–	–	–	352	–	–	352
Other comprehensive loss (note 13)	–	–	–	–	(40)	–	(40)
Net income for the period	–	–	–	–	–	3,646	3,646
<b>Balance at September 30, 2010</b>	<b>61,165,095</b>	<b>\$ 8,983</b>	<b>\$ 2,957</b>	<b>\$ 1,491</b>	<b>\$ (161)</b>	<b>\$ 6,546</b>	<b>\$ 19,816</b>

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

**Centric Health Corporation**  
**Interim Consolidated Statements of Cash Flows**  
*(unaudited)*  
*(in thousands of dollars)*

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
<b>Cash provided by</b>				
<b>Operating activities</b>				
Net income for the period	\$ 1,326	\$ 888	\$ 3,646	\$ 1,745
Items not affecting cash:				
Amortization of property and equipment	78	126	193	233
Amortization of finite-lived intangible assets	61	–	170	–
Amortization of loan arrangement costs	69	35	214	47
Leasehold inducement	(5)	(17)	(17)	(17)
Future income taxes	142	300	308	300
Stock-based compensation	110	31	352	109
Changes in non-cash working capital items (note 8)	(871)	359	(1,157)	(177)
<b>Cash provided by operating activities</b>	<b>910</b>	<b>1,722</b>	<b>3,709</b>	<b>2,240</b>
<b>Investing activities</b>				
Loan advances	(414)	–	(974)	–
Increase in deferred acquisition costs	(41)	–	(190)	–
Acquisition of businesses (note 5)	(623)	(272)	(623)	(19,900)
Acquisition of license	–	–	(266)	–
Deposit on future acquisition (note 17)	(350)	–	(350)	–
Lease inducement	–	115	–	115
Proceeds from disposition of equipment	–	–	7	–
Purchase of intangible assets	(90)	–	(162)	–
Acquisition of non-controlling interest (note 7)	–	–	–	(750)
Purchase of property and equipment	(119)	(146)	(407)	(362)
<b>Cash used in investing activities</b>	<b>(1,637)</b>	<b>(303)</b>	<b>(2,965)</b>	<b>(20,897)</b>
<b>Financing activities</b>				
Proceeds of long-term loan, net of loan arrangement costs (note 10)	–	–	–	10,285
Repayment of long-term loan (note 11)	(550)	(550)	(1,650)	(550)
Issuance of common shares and warrants, net of issue costs (note 12)	6	156	35	6,866
Decrease in non-controlling interest	–	–	–	(21)
<b>Cash (used in) provided by financing activities</b>	<b>(544)</b>	<b>(394)</b>	<b>(1,615)</b>	<b>16,580</b>
<b>(Decrease) increase in cash</b>	<b>(1,271)</b>	<b>1,025</b>	<b>(871)</b>	<b>(2,077)</b>
<b>Cash, beginning of period</b>	<b>1,596</b>	<b>900</b>	<b>1,196</b>	<b>4,002</b>
<b>Cash, end of period</b>	<b>\$ 325</b>	<b>\$ 1,925</b>	<b>\$ 325</b>	<b>\$ 1,925</b>

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

## ***Centric Health Corporation***

### **Notes to Interim Consolidated Financial Statements**

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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#### **1. Business of the Company**

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Centric Health Corporation (the “Company”) is incorporated under the *Canada Business Corporations Act* and is listed on the Toronto Stock Exchange. The Company’s principal business is providing healthcare services to its customers.

The results of operations presented in the 2009 year-to-date comparative financial statements include four months of operations for the Active Health business acquired on May 29, 2009.

#### **2. Basis of Presentation**

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These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements and accordingly do not include all disclosures required for annual financial statements. These unaudited interim consolidated financial statements follow the same significant accounting policies as the Company’s audited annual consolidated financial statements for the year ended December 31, 2009 and accordingly, should be read in conjunction with those annual financial statements and the notes thereto. All amounts disclosed are in thousands of Canadian dollars, unless otherwise stated.

The accompanying unaudited interim consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. The results of operations and cash flows for the current periods as presented are not necessarily indicative of the results to be expected for the full year.

#### **3. Significant Accounting Policies**

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##### **Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounting elements which require management to make subjective estimates and assumptions include revenue recognition, estimated useful lives of property and equipment, valuation of goodwill and intangible assets and valuation of options and warrants. Actual results could differ from those estimates.

##### **Reclassifications**

Certain 2009 amounts have been reclassified to conform to the current period’s presentation.

## ***Centric Health Corporation***

### **Notes to Interim Consolidated Financial Statements**

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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### **3. Significant Accounting Policies - Continued**

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#### **New Accounting Policies**

There have been no new accounting policies adopted in these unaudited interim consolidated financial statements. The volume of accounting pronouncements being introduced by the Canadian Institute of Chartered Accountants applicable to the Company has reduced significantly pending the transition to International Financial Reporting Standards ("IFRS").

#### **Future Accounting Changes**

There have been no additional future accounting changes from those reported in Note 2 to the 2009 audited consolidated financial statements.

### **4. Loan Receivable**

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On May 17, 2010, the Company entered into an agreement with PrevCan Inc. ("Intervent") to advance \$2,000 on a periodic basis through to April 1, 2011. The advances bear interest at 6% per annum which is payable nine months in arrears. The loan and any accrued interest is due May 11, 2011 payable at Intervent's option in either cash or shares in Intervent, representing a 50% fully diluted interest. In the event the loan is repaid through the issuance of Intervent shares, the Company's cost of acquiring the shares will be represented by the loan amount and any unpaid interest. If Intervent elects to repay the loan with its shares, the Company is required to pay certain additional contingent consideration in the form of Company warrants and shares if certain financial performance criteria are met by Intervent in the year ending December 31, 2011.

The Company can demand repayment of the loan on or prior to May 2011. In such circumstances, the Company would be required to provide the full amount of the loan advances and Intervent would repay the loan by issuing shares in Intervent representing a 50% fully diluted interest.

As of September 30, 2010, the Company had advanced Intervent \$920 and has included in the loan receivable, fees related to the loan of \$54. The fees will be amortized over the balance of the term of the loan. Interest accrued to September 30, 2010 is \$19.

## **Centric Health Corporation**

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **5. Acquisitions**

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During the quarter ended September 30, 2010, the Company completed the acquisition of 100% of the shares in Community Advantage Rehabilitation Inc. ("CAR"). CAR provides occupational therapy and home care to adults and children in Ontario.

The purchase price of the acquisition includes \$500 in cash paid upon closing. The balance of the purchase price, of up to \$1,500, is to be paid by the issuance of shares and warrants of the Company and is contingent on the performance of CAR achieving certain predetermined earnings targets over the next three years. The contingent consideration is not valued at this time as future performance cannot be reasonably estimated.

The purchase price was recorded as follows:

#### **Purchase Price**

Cash consideration	\$	500
Transaction costs		113
	\$	<u>613</u>

#### **Fair Value of Net Assets Acquired**

Current assets	\$	435
Property and equipment		24
CCAC <sup>1</sup> Contract (note 10)		339
		<u>798</u>
Current liabilities		(185)
	\$	<u>613</u>

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<sup>1</sup> CCAC - Community Care Access Centre, a community based program for healthcare services through the Ontario Ministry of Health and Long-term Care.

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## 6. Capital Management

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The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the continuation and expansion of its operations. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include share capital, warrants and the stock option component of its shareholders' equity as well as its long-term loan and operating facility (see Note 11). In order to maintain or adjust its capital structure, the Company may seek additional financing through the issuance of new equity securities, the exercise of outstanding stock options and warrants or the issuance of debt instruments such as operating or term loans.

The Company is not subject to any externally imposed capital requirements and has adequate capital on hand to meet future obligations.

Management reviews its capital management requirements on an ongoing basis and believes this approach, given the relative size of the Company, is reasonable. There were no changes to the Company's approach to capital management during the three month and nine months ended September 30, 2010.

## 7. Related Party Transactions and Balances

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In the normal course of operations, the Company has entered into certain related party transactions which have been measured at the respective exchange amounts, being the consideration established and agreed to by the related parties.

A summary of the transactions with related parties for the three and nine month periods ended September 30, 2010 and 2009 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
General and administrative expenses:				
Brenras	\$ -	\$ 90	\$ -	\$ 270
GHIS	\$ 182	\$ 152	\$ 542	\$ 247
	<u>\$ 182</u>	<u>\$ 242</u>	<u>\$ 542</u>	<u>\$ 517</u>
Interest incurred on the GHIS Capital debenture:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22</u>

Included in accounts payable and accrued liabilities at September 30, 2010 and December 31, 2009, are \$118 and \$254, respectively, due to Global Healthcare Investments and Solutions, Inc. ("GHIS").



## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## **7. Related Party Transactions and Balances - Continued**

GHIS and entities controlled by the shareholders of GHIS own approximately 52% of the issued and outstanding common shares of the Company as of September 30, 2010. GHIS provides strategic and business development consulting services to the Company. The existing consulting agreement with GHIS was amended in May, 2009. Under the terms of the consulting agreement which has an initial term of three years renewable annually thereafter, the monthly consulting fee is \$20. In addition, a performance fee component whereby GHIS will be entitled to an annual fee of 1% of the Company's market capitalization (computed on a trailing twelve month weighted average basis) provided the market capitalization exceeds a minimum threshold amount of \$20,000. The performance fee incurred in the three and nine months ended September 30, 2010, totalled \$98 and \$310, respectively.

GHIS Capital Inc. ("GHIS Capital") is related to GHIS by common control. GHIS Capital was the holder of a convertible debenture issued by the Company in 2007. Concurrent with the closing of the acquisition of the Active Health Management business, the Company redeemed the convertible debenture at its face amount of \$750 and also agreed to issue to GHIS Capital a warrant, expiring on May 29, 2012, entitling it to subscribe for and purchase 25% of the issued and outstanding common shares, as calculated immediately following the exercise, of Alegro Health Partners Inc. ("AHP"), a wholly-owned subsidiary of the Company, upon the payment of \$33.

Other aspects of the contractual arrangements between the Company, GHIS and GHIS Capital remained essentially unchanged including the agreement that AHP will be the entity that would pursue and conduct all new business opportunities in the healthcare sector distinct from the Company's current rehabilitation, medical assessment and related activities.

Brenras Holdings Inc. ("Brenras") is wholly-owned by a significant shareholder and former director of the Company. Brenras provided management services to the Company in 2009.

## **8. Supplementary Disclosure of Cash Flow Information**

(a) The net changes in non-cash working capital are comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Accounts receivable	\$ (846)	\$ (21)	\$ (2,715)	\$ 29
Accrued receivables	256	466	(545)	210
Prepaid expenses	19	(17)	8	(100)
Accounts payable and accrued liabilities	(495)	(29)	1,244	(453)
Income taxes payable	195	(40)	851	137
	<u>\$ (871)</u>	<u>\$ 359</u>	<u>\$ (1,157)</u>	<u>\$ (177)</u>

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## 8. Supplementary Disclosure of Cash Flow Information - Continued

(b) Other supplementary cash flow information:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Income taxes paid	\$ 146	\$ 178	\$ 493	\$ 423
Interest paid	\$ 113	\$ 155	\$ 383	\$ 203

## 9. Property and Equipment

At September 30, 2010

	Cost	Accumulated Amortization	Net Book Value
Office furniture, fixtures and equipment	\$ 702	\$ 498	\$ 204
Work simulation and facility equipment	1,268	1,268	–
Computer equipment	1,229	888	341
Medical equipment	510	401	109
Physiotherapy equipment	361	88	273
Leasehold improvements	293	37	256
	\$ 4,363	\$ 3,180	\$ 1,183

At December 31, 2009

	Cost	Accumulated Amortization	Net Book Value
Office furniture, fixtures and equipment	\$ 653	\$ 475	\$ 178
Work simulation and facility equipment	1,268	1,268	–
Computer equipment	1,162	806	356
Medical equipment	401	391	10
Physiotherapy equipment	272	41	231
Leasehold improvements	186	9	177
	\$ 3,942	\$ 2,990	\$ 952

## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## **10. Intangible Assets and Goodwill**

	<b>September 30, 2010</b>	December 31, 2009
Indefinite-life intangible assets:		
Hospital license	\$ 1,147	\$ 1,147
Government billing privileges	4,105	4,105
Sleep clinic license	265	–
	<b>5,517</b>	5,252
Finite-life intangible assets:		
Software (net of amortization)	1,692	1,500
Amortization of software	(294)	(125)
	<b>1,398</b>	1,375
CCAC contract	339	–
Total intangible assets	<b>7,254</b>	6,627
Goodwill	<b>14,182</b>	14,213
Total intangible assets and goodwill	<b>\$ 21,436</b>	\$ 20,840

The Company acquired software, billing privileges and goodwill in its acquisition of Active Health. The Company valued the software based on its replacement value and performed an impairment test on the software at December 31, 2009. The Company determined there was no impairment. The software is being amortized over its estimated useful life of seven years. As at September 30, 2010, accumulated amortization on software was \$294 (December 31, 2009 - \$125).

In the quarter ended September 30, 2010, the goodwill was adjusted for an accrual recorded on acquisition of Active Health which was \$31 higher than what was ultimately paid.

The Community Care Access Centre (“CCAC”) contract acquired in the CAR acquisition has a useful life of approximately 5 years.

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## 11. Long-Term Loan and Operating Facility

### Long-term loan

On May 29, 2009, the Company obtained a long-term loan of \$11,000 from a major Canadian chartered bank in conjunction with the acquisition of the Active Health Management business. The loan is repayable over a five-year period, with quarterly principal payments of \$550. Interest on the loan is payable monthly. All of the assets of the Company have been pledged as collateral for this loan. The annual rate of interest is 5.65% fixed by an interest swap over the term of the loan. The floating rate of the loan was prime plus 3.25%.

The long-term loan is presented net of loan arrangement costs. These costs are amortized over the term of the loan through accretion resulting in increasing interest expense recorded on the consolidated balance sheets over time. At September 30, 2010, the net long-term loan (including the current portion) is \$7,831 (face value of \$8,250 less \$419 of unamortized loan arrangement costs).

Interest expense is presented net of \$17 of interest income for the quarter and nine months ended September 30, 2010.

Interest expense comprises the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest expense on long-term loan	\$ 113	\$ 155	\$ 383	\$ 203
Amortization of loan arrangement costs	69	35	214	47
Interest income	(17)	–	(17)	–
	<u>\$ 165</u>	<u>\$ 190</u>	<u>\$ 580</u>	<u>\$ 250</u>

The Company is in compliance with the financial covenants of the long-term loan as at September 30, 2010.

The Company uses derivative financial instruments to manage current and future risks related to interest rate fluctuations associated with its loan.

As at September 30, 2010, the Company used an interest rate swap as part of its program for managing the combination of fixed and variable interest rates of its debt and the corresponding aggregate cost of borrowing. The interest rate swap expires concurrently with the maturity of the loan. The interest rate swap involves an exchange of interest payments without an exchange of principal underlying the interest payments, and is accounted for as an asset or liability depending on the position with respect to the variable portion of the swap and the corresponding gain or loss is recorded in other comprehensive income.

The Company formally documents and designates its derivative financial instrument as a cash-flow hedge on its bank loan. The Company evaluated the effectiveness of its hedging transaction at the time of the establishment of the instrument. As at September 30, 2010, the fair value of the hedge was approximately \$161 in favour of the counterparty.

## **Centric Health Corporation**

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **11. Long-Term Loan and Operating Facility - Continued**

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### **Operating facility**

The Company renegotiated its financing agreement with its bank effective in the fourth quarter. The renegotiated financing modifies the term loan and operating credit facility with a revolving facility for \$20,000, as described more fully in note 17.

## **12. Shareholders' Equity and Earnings per Share**

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### **Common shares**

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

Nine months ended September  
30,  
(\$ thousands, except share amounts)

	2010		2009	
	Shares	Stated value	Shares	Stated value
Common shares				
Balance, beginning of period	<b>61,015,095</b>	<b>\$ 8,921</b>	36,581,762	\$ 3,928
Issued through private placement	–	–	20,500,000	3,754
Issued for acquisition	–	–	3,333,333	1,000
Stock options exercised	<b>150,000</b>	<b>62</b>	600,000	239
Balance, end of period	<b>61,165,095</b>	<b>\$ 8,983</b>	61,015,095	\$ 8,921

During the three months ended September 30, 2010, 25,000 shares were issued upon exercise of options at a weighted average exercise price of \$0.275.

## **Centric Health Corporation**

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **12. Shareholders' Equity and Earnings per Share - Continued**

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### **Issuance of common shares and warrants**

On May 29, 2009, the Company issued a private placement of 20,500,000 common shares and an equal number of warrants to GHIS for a total consideration of \$6,765. Each warrant entitles the holder to acquire one common share for a period of 5 years from that date, at a price of \$0.33 per share. The warrants have been fair valued at \$2,981 (less transaction costs of \$24) using the Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	115%
Risk-free interest rate	2.5%
Expected life in years	5
Share price at date of issue	\$0.260
Fair value of warrant	\$0.145

The GHIS warrants were the only warrants outstanding as at September 30, 2010.

### **Issuance of stock options and deferred stock-based compensation**

On September 2, 2010, the Company granted 150,000 stock options to three directors to purchase an equivalent number of common shares at an exercise price of \$0.72 per share to be vested at the rate of 25% per annum over a four - year period.

The value assigned to options, granted in the period, of \$62, was calculated using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	85% - 111%
Risk-free interest rate	1.28% - 1.83%
Expected option term	5 years

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## 12. Shareholders' Equity and Earnings per Share - Continued

Deferred stock-based compensation not yet charged to income is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$ 1,687	\$ 271	\$ 1,752	\$ 133
Options granted in the period as deferred compensation	62	20	239	217
Expensed in the period	(110)	(50)	(352)	(109)
Balance, end of period	\$ 1,639	\$ 241	\$ 1,639	\$ 241

The outstanding and exercisable stock options are as follows:

Nine months ended September 30,	2010		2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
<b>Common share options</b>				
Balance, beginning of period	5,075,000	\$ 0.58	3,050,000	\$ 0.28
Options granted	500,000	0.69	825,000	0.37
Options exercised	(150,000)	0.24	(600,000)	0.26
Options cancelled	(150,000)	1.03	(100,000)	0.34
Balance, end of period	5,275,000	\$ 0.58	3,175,000	\$ 0.31
Exercisable, end of period	1,960,417	\$ 0.29	1,568,750	\$ 0.26

### Earnings per share

Earnings per share for the three and nine months ended September 30, 2010 and 2009 have been calculated on the basis of net income for the period divided by the weighted average number of common shares outstanding during each period. Diluted earnings per share, for all periods presented, were calculated based on the weighted average number of common shares outstanding and stock options and warrants outstanding during the period. The weighted average calculation was based on the treasury stock method and included all options and warrants that were issued at prices lower than the market price of the Company's common shares at the respective period ends.

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

## 12. Shareholders' Equity and Earnings per Share - Continued

The following table illustrates the dilutive effect of the outstanding options and warrants for the three and nine months ended September 30, 2010 and 2009:

(amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic weighted average shares outstanding	<b>61,152</b>	60,817	<b>61,117</b>	47,543
Dilutive effect of options	<b>1,134</b>	1,199	<b>1,121</b>	810
Dilutive effect of warrants	<b>8,748</b>	6,700	<b>8,730</b>	3,775
Diluted shares outstanding	<b>71,034</b>	68,716	<b>70,968</b>	52,128

## 13. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) ("AOCI") is comprised of the fair value of the interest rate swap on the long-term loan. The fair value is calculated as the difference in the net present value of the future cash flows to and from the counterparty. Unrealized gains and losses will accumulate in the AOCI until the maturity of the loan.

Changes in the components of AOCI are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
AOCI at beginning of period	\$ (136)	\$ -	\$ (121)	\$ -
OCI for the period due to fair value of interest rate swap	(25)	(154)	(40)	(154)
AOCI at end of period	\$ (161)	\$ (154)	\$ (161)	\$ (154)



## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **14. Financial Instruments**

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The Company's financial instruments consist of cash, accounts receivable, accrued receivables, loan receivable, accounts payable, accrued liabilities and its long-term loan. In addition, the Company has an interest rate swap.

### **Fair value**

#### *Fair value hierarchy*

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

- *Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities*  
This level of the hierarchy includes cash. The fair value of the instrument is quoted prices where they represent those at which regularly and recently occurring transactions take place.
- *Level 2: Inputs that are observable for the assets or liabilities either directly or indirectly*  
This level of the hierarchy includes derivative financial instruments with major Canadian chartered banks. These instruments are recorded at fair value on the settlement date. The fair value of derivatives used to manage interest rate exposure is calculated through discounting future expected cash flows using the BA - based swap curve. Since the BA - based swap curve is an observable input, these financial instruments are considered Level 2.
- *Level 3: Inputs for assets or liabilities that are not based on observable market data.*  
The Company has no financial instruments in this category.

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

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#### 14. Financial Instruments - Continued

Due to their short-term maturities, the fair value of financial instruments approximates their carrying value. The long-term loan is the subject of an interest rate swap which is discussed in interest rate risk, below. The interest rate swap is recorded at its fair value at September 30, 2010. The aggregate of the face value of the long-term loan plus the recorded amount of the interest rate swap approximates the fair value of the loan.

Financial instruments at fair value:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	\$ 325	\$ –	\$ –	\$ 325
Financial liabilities:				
Interest rate swap	\$ –	\$ 161	\$ –	\$ 161

#### Financial instruments not carried at fair value

The following table presents the carrying value of the Company's financial instruments which are not carried at fair value in the balance sheet. The following financial instruments are carried at historical cost or amortized historical cost:

	September 30, 2010 Carrying value	December 31, 2009 Carrying value
Accounts receivable	\$ 10,609	\$ 7,500
Loan receivable	974	–
Total financial assets	\$ 11,583	\$ 7,500
Accounts payable and accrued liabilities	\$ 7,397	\$ 5,967
Long-term loan	7,831	9,269
Total financial liabilities	\$ 15,228	\$ 15,236

## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **14. Financial Instruments - Continued**

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### **Credit risk and economic dependence**

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 and accrued receivables are from the Workplace Safety and Insurance Board, government agencies, employers and insurance companies. The Company has experienced minimal bad debt expense.

The Company derived approximately 45% (December 31, 2009 – 35%) of its revenue for the nine month period ended September 30, 2010 from billings through its government billing privileges and as such, is subject to concentration risk associated with its reliance on such billings. For the quarter ended September 30, 2010, the revenue derived through its government billing privileges was approximately 46% of its total revenue.

The Company's cash is held through a chartered Canadian bank. The Company is not exposed to significant credit risk arising from its financial instruments.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity by assuring that there is sufficient working capital to meet short and long-term business requirements after taking into account cash flows from operations and the Company's holding of cash and net working capital. The Company also strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances.

Management forecasts cash flows for its current and subsequent fiscal years to project future financial requirements. At September 30, 2010, the Company had \$325 (December 31, 2009 – \$1,196) of cash and a current portion of its long-term loan of \$2,200 (December 31, 2009 – \$2,200) with a long-term portion of \$5,631 (December 31, 2009 – \$7,068). In accordance with the CICA Handbook Section 3855, the long-term debt is presented net of loan arrangement costs of \$419, which are being amortized using the effective interest method over the term of the loan. The Company anticipates that it will generate sufficient cash flow from operations over the next year to meet the repayment of the current portion of its long-term loan and current liabilities.

### **Interest rate risk**

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. The Company has a revolving operating facility of \$4,000 (December 31, 2009 – \$4,000) which has a variable interest rate based on prime. As at September 30, 2010 and December 31, 2009, the Company had not drawn on the facility.

The Company also has a five-year loan with a face value of \$8,250 which carries a floating interest rate, based on the prime rate, plus 3.25%, which has, through the swap (see Note 11), resulted in a fixed interest rate of 5.65%. The Company has entered into an interest rate swap on its loan to mitigate interest rate risk on its loan.

## Centric Health Corporation

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

#### 14. Financial Instruments - Continued

The fair value of the swap effective as at September 30, 2010, recorded as a derivative financial instrument amounts to \$161 in favour of the counterparty. This amount is recorded as a liability and is accumulated in other comprehensive income.

##### Currency risk

Virtually all of the Company's transactions are denominated in Canadian dollars. At September 30, 2010, the Company held no financial instruments that were denominated in other than Canadian currency.

#### 15. Segmented Reporting

The operations of the Company and its consolidated subsidiaries are comprised of two reportable operating segments referred to as (i) Rehabilitation, Assessment, Eldercare and Home Care ("Rehabilitation") and (ii) Surgical Centres. The Rehabilitation segment includes the businesses of Centric Disability Management Inc., Active Health Services Inc., and Community Advantage Rehabilitation Inc. which provide medical assessment and rehabilitation services to the community, insurance industry and employers, physiotherapy network management, and physiotherapy services to long-term care and retirement homes. The Surgical Centres segment consists of the businesses of Don Mills Surgical Unit ("DMSU") and the Centric Sleep Clinic. DMSU is an accredited, Toronto-based hospital specializing in a mix of ambulatory and surgical services and includes the Centric Sleep Clinic assets. The general and administrative costs included in the "Corporate" column have not been allocated to the two segments and generally represent the costs associated with a publicly - listed entity.

##### As at and for the three months ended September 30, 2010

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centres	Corporate	Total
Revenue	\$ 15,399	\$ 356	\$ -	\$ 15,755
Amortization	\$ 132	\$ 5	\$ 2	\$ 139
Interest	\$ -	\$ -	\$ 165	\$ 165
Income (loss) before interest and income taxes	\$ 2,018	\$ (26)	\$ (11)	\$ 1,981
Capital expenditures	\$ 393	\$ 71	\$ -	\$ 522
Goodwill	\$ 14,182	\$ -	\$ -	\$ 14,182
Total assets	\$ 33,087	\$ 2,004	\$ 1,690	\$ 36,781

##### As at and for the three months ended September 30, 2009

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centres	Corporate	Total
Revenue	\$ 12,093	\$ 338	\$ -	\$ 12,431
Amortization	\$ 91	\$ -	\$ 35	\$ 126
Interest	\$ -	\$ -	\$ 190	\$ 190
Income (loss) before interest and income taxes	\$ 2,241	\$ 65	\$ (792)	\$ 1,514
Capital expenditures	\$ 111	\$ 1	\$ 34	\$ 146
Goodwill	\$ 14,213	\$ -	\$ -	\$ 14,213
Total assets	\$ 31,394	\$ 94	\$ 322	\$ 31,810

## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **15. Segmented Reporting - Continued**

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### **Nine months ended September 30, 2010**

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centres	Corporate	Total
Revenue	\$ 44,386	\$ 1,036	\$ –	\$ 45,422
Amortization	\$ 345	\$ 13	\$ 5	\$ 363
Interest	\$ –	\$ –	\$ 580	\$ 580
Income (loss) before interest and income taxes	\$ 6,582	\$ (50)	\$ (648)	\$ 5,884
Capital expenditures	\$ 683	\$ 399	\$ 66	\$ 1,148

### **Nine months ended September 30, 2009**

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centres	Corporate	Total
Revenue	\$ 22,725	\$ 1,002	\$ –	\$ 23,727
Amortization	\$ 159	\$ –	\$ 74	\$ 233
Interest	\$ –	\$ –	\$ 250	\$ 250
Income (loss) before interest and income taxes	\$ 5,219	\$ 159	\$ (2,524)	\$ 2,854
Capital expenditures	\$ 284	\$ 4	\$ 74	\$ 362

## **16. Contingencies**

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During the first quarter of 2010, the former CEO of the Company commenced a claim seeking compensation for termination of her employment and additional compensation amounts. The Company has initiated a defense against this claim and management believes that it has adequate provisions in its financial statements to provide for the settlement of this action.

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 management, these claims and lawsuits in the aggregate, even if adversely settled, would not have a material impact on the Company's financial position, results of operations or cash flows.

## ***Centric Health Corporation***

### Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009 (unaudited)

(in thousands of Canadian dollars)

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## **17. Subsequent Events**

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The following events occurred subsequent to September 30, 2010:

- i. The Company acquired the business and assets of two retail pharmacies, in partnership, located in Newmarket, Ontario. The total consideration for the acquisition was approximately \$7,000 plus the cost of inventory of \$270.
- ii. The Company finalized a revolving operating facility for up to \$20 million through a Canadian chartered bank. The advances accrue interest at a rate of prime plus 2% to be paid monthly in arrears. The renegotiated financing replaces the long-term loan and operating facility described in Note 11 to these interim consolidated financial statements.
- iii. The Company entered into an agreement with Jamon Investments LLC (“Jamon”), an associated entity of Dr. Jack Shevel, Chairman and Interim CEO of the Company and President of GHIS, the largest shareholder of the Company. The agreement provides for Jamon to loan \$10 million, in two tranches, in subordinated debt to the Company. Of this amount, \$5 million is convertible at the lender’s option at \$1.00 per share, bears interest at 6% per annum and contains a warrant for 1 million shares at \$1.00 per share for a three year term. The remaining \$5 million loan bears 7% interest for a term of one year callable at the option of the lender should the Company raise greater than \$10 million through an equity placement.