Centric Health

Your Care. Our Focus.

Management's Discussion and Analysis

For the Year ended December 31, 2010

Management's Discussion and Analysis

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 2011 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. Other than specifically required by applicable laws, we are under no obligation and we expressly disclaim any such obligation to update or alter the forward-looking statements whether as a result of new information, future events or otherwise except as may be required by law. These forward looking statements are made as of the date of this analysis.

The following is a discussion of the consolidated financial position and the results of operations of Centric Health Corporation, ("Centric" or "Company") for the quarter and year ended December 31, 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 annual consolidated financial statements and notes thereto for the year ended December 31, 2010. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The following MD&A is presented as of March 10, 2011. All amounts are disclosed in thousands of Canadian dollars. Additional information about the Company, including the Annual Information Form, is available on Sedar.com.

Highlights for the Year Ended December 31, 2010

- Revenue increased 70% to $62.5 million, as compared to $36.6 million in 2009.
- Net income increased 164% to $4.3 million for the year, as compared to $1.6 million in 2009.
- EBITDA[1] increased by 136% or $4.7 million to $8.2 million, as compared to $3.5 million in 2009. This increase translates to an improved EBITDA margin to over 13% from 9.5% in 2009.
- Cash flows from operating activities reached $5.9 million, a 98% increase from $3.0 million in the prior year.
- The Company successfully integrated the operations and businesses of Active Health, acquired in 2009.
- The Company established its homecare division through the acquisition of Community Advantage Rehabilitation Inc., a company providing services in occupational therapy, physiotherapy, social work and dietetics.
- On October 1, 2010, the Company acquired two pharmacies located on the Southlake Regional Health Centre campus in Newmarket, Ontario.
- The Company obtained $10 million in subordinated debt from an entity associated with its Chairman.
- On December, 9, 2010, the Company announced the appointment of Daniel Carriere to the position of President and CEO. Mr Carriere brings substantial expertise in healthcare leadership to the Company.
- Subsequent to December 31, 2010, the Company acquired Surgical Spaces Inc., a company operating two ambulatory surgical facilities in Western Canada, including a full service diagnostic and emergency medicine clinic in BC.
- Subsequent to December 31, 2010, the Company closed a private placement bought deal of 17,940,000 shares for proceeds of $21.5 million. In addition, the underwriter was issued warrants to purchase 538,200 shares at an exercise price of $1.27 per share for a period of two years.

Business Outlook and Strategy

Management is pleased with the performance of its 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 inception of its pharmacy division that commenced operations October 1, 2010.

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.

In line with the Company's strategy to expand into surgical centres, the Company acquired Surgical Spaces Inc. ("SSI") on January 19, 2011. SSI is the owner and operator of two of Canada's leading ambulatory healthcare facilities, False Creek Surgical Centre in Vancouver ("FCSC") and Maples Surgical Centre in Winnipeg ("MSC"). The transaction is described in the Subsequent Events section of this MD&A.

[1] See EBITDA section for definition and calculation of this amount.

Business Overview

Centric Health Corporation is a Canadian healthcare investment company. Through the Company's subsidiaries, Don Mills Surgical Unit ("DMSU"), Centric Disability Management ("Disability Management"), Community Advantage Rehabilitation Inc. ("CAR"), Active Health Services ("Active Health"), and Centric Pharmacy Inc. ("Pharmacies"), Centric provides a variety of surgical procedures, disability management, third-party medical assessment, physiotherapy network management, specialty pharmacy, 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.

Subsidiary Overview

Centric Disability Management

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

CDM 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.

CDM has positioned itself as a premier provider of disability management services, rehabilitation services and vocational assessments. Work Able pioneered the use of work-simulated facilities in Canada to support functional recovery and promote return to work; and has created a formidable critical injury assessment division. CDM 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 and Fredericton, New Brunswick. These facilities are equipped with state of the art assessment, rehabilitation and work simulation tools and systems.

CDM employs 115 staff and approximately 750 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.

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

Active Health

Active Health specializes in high quality rehabilitation and disability management services that focus on physiotherapy, physiotherapy network management and elder care. The elder care business provides physiotherapy services to over 293 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").

The Active clinic network focuses mainly on treating patients who have suffered motor vehicle and workplace injuries by providing rehabilitation services. Through relationships with insurers and the providers, Active is providing a superior service to its clients and patients by promoting best practice rehabilitative treatment plans and constantly reviewing and collecting data on patient outcomes.

Community Advantage Rehabilitation Inc.

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 dieticians 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").

(in thousands of dollars, except share amounts)

Centric Pharmacy Inc.

On October 1, 2010, the Company acquired two pharmacies located in Newmarket, Ontario.

DMSU

DMSU is an accredited, Toronto-based hospital operating since 1966 under Ontario's Private Hospitals Act and licensed by the MOHLTC. 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, a central nursing station and physician's offices. The hospital is licensed to service 20 overnight stay beds. During the year ended December 31, 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.

Reconciliation of Non-GAAP Measures

EBITDA

The Company defines EBITDA as earnings before interest expense, income taxes, amortization and 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. Investors should be cautioned that EBITDA should not be construed as an alternative to net income as determined in accordance with GAAP.

	Years ended December 31,		Three months ended December 31,	
	2010	2009	**2010**	2009
Net income (loss)	**$ 4,328**	$ 1,640	**$ 682**	$ (105)
Amortization	**496**	371	**135**	138
Interest expense	**971**	433	**391**	183
Stock-based compensation	**493**	140	**141**	31
Income taxes	**1,928**	897	**270**	38
EBITDA	**8,216**	3,481	**1,619**	285
Fully diluted weighted average number of shares	**72,696**	65,906	**72,832**	75,984
EBITDA per share	**$ 0.11**	$ 0.05	**$ 0.02**	$ 0.00

(in thousands of dollars, except share amounts)

Selected Financial Information

The following selected financial information for the years ended December 31, 2010, 2009 and 2008, and for the three months ended December 31, 2010 and 2009 has been derived from the audited consolidated financial statements and should be read in conjunction with those financial statements and related notes.

	Years ended December 31,		
	2010	2009	2008
Total Revenue	**$ 62,482**	$ 36,623	$ 15,795
Expenses:			
Direct costs	**46,098**	26,188	8,918
General and administrative expenses	**8,168**	6,954	4,898
Stock-based compensation	**493**	140	124
Amortization	**496**	371	174
	55,255	33,653	14,114
Income before interest expense and income taxes	**7,227**	2,970	1,681
Interest expense	**971**	433	-
Income before income taxes	**6,256**	2,537	1,681
Net income	**$ 4,328**	$ 1,640	$ 952
Earnings per share:			
Basic	**$ 0.071**	$ 0.032	$ 0.026
Diluted	**$ 0.060**	$ 0.025	$ 0.026
Total assets	**$ 55,544**	$ 31,645	$ 8,973
Total long-term financial liabilities	**$ 19,251**	$ 7,425	$ -

	Three months ended December 31,	
	2010	2009
Total Revenue	**$ 17,060**	$ 12,896
Expenses:		
Direct costs	**12,984**	9,918
General and administrative expenses	**2,457**	2,693
Stock-based compensation	**141**	31
Amortization	**135**	138
	15,717	12,780
Income before interest expense and income taxes	**1,343**	116
Interest expense	**391**	183
Income (loss) before income taxes	**$ 952**	$ (67)

Results of Operations

Revenues

Revenue for the year ended December 31, 2010 increased by $25,859 over the prior year to $62,482 in the current year. Sales attributable to Active Health for the comparable seven-month period increased to $22,267 from $17,899 in 2009, an increase of $4,368. This increase was due to higher numbers of long-term care homes serviced from 248 homes at December 31, 2009 to 293 homes at December 31, 2010, representing a net gain of 45 homes or 18% increase over the prior year. The increase in homes translates into an increase of over 4,800 beds serviced. Further contributors to increased revenues were increased utilization rates of physiotherapy services in the elder care division. Overall, our return on revenue for the year ended December 31, 2010 was 7% compared to 4.5% for the year ended December 31, 2009.

Sales for CDM increased by $3,097 for the year, driven primarily by a higher number of assessments obtained through increased referrals and additional business relationships with insurance providers. Synergies from the acquisition of Active Health resulted in additional referral sources from its assessment business which contributed to the revenue growth in the disability management division. Significant resources were expended in the business development of this division to introduce new product offerings to the market to attract new customers and garner increased referrals from existing customers.

Revenue for the newly acquired divisions generated $1,446 from CAR for the period from September 1, 2010, and $1,204 from the Pharmacy business from October 1, 2010.

Revenue for the fourth quarter ended December 31, 2010 increased by $4,164 of which $1,806 of the increase was generated by Active Health; $68 was generated by the Disability Management division, CAR contributed $1,076 of the increase, and Pharmacy, which was acquired October 1, 2010, generated revenue of $1,204. The balance of the revenue growth of $10 was generated from DMSU.

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; in addition, in the fourth quarter, the cost of inventory sold for the pharmacies was included in our direct costs.

Direct costs for the year ended December 31, 2010 were $46,098, which was an increase of $19,910 compared with the prior year driven by the increase in revenues. For the fourth quarter, direct costs expressed as a percentage of revenue were comparable at approximately 76% for the same quarter in the current and prior years.

Direct costs as a percentage of revenue for the year ended December 31, 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 seven months in 2009 but is consistent with the percentage of revenue in the three-month period ended December 31, 2010.

General and administrative expenses for the year ended December 31, 2010 were $8,168 which was $1,214 higher than the prior year. This increase resulted primarily from higher salary and benefit costs of $581 associated with the Active Health business; and, an increase in the overhead costs for infrastructure to support the growth of the business. Included in the increased overhead are additional audit and consulting fees, administrative costs and increased contractual fees of $352 relating to the services performed by Global Healthcare Investments and Solutions, Inc. ("GHIS").

General and administrative expenses for the fourth quarter ended December 31, 2010 were $236 less than the comparable period in the prior year. The Company recorded a one-time restructuring charge of $600 relating to the re-organization of the Company's senior management and other restructuring costs as a result of the acquisition and integration of the Active Health business in the fourth quarter ended December 31, 2009.

Stock-based compensation, a non-cash expense, increased by $354 in the year relating to the vesting of options granted at the end of 2009 and during 2010.

Amortization was higher during the year ended December 31, 2010 due to the amortization of the assets acquired in the Active Health acquisition for a full year in 2010. Amortization for the fourth quarter was in line with the same quarter in the prior year.

Interest expense for the year ended December 31, 2010, relates to the long-term loan that was arranged at the end of May 2009, for the purchase of the Active Health, the revolving operating facility arranged in October, 2010 and the related party loans obtained in November, 2010. The interest expense includes $278 of amortization of loan arrangement costs ($71 for the year ended December 31, 2009) and interest incurred on its long-term loan and operating facility of $572 for the year ($362 – 2009). Interest accrued on the related party subordinated debt totaled $92 for the quarter and year ended December, 31, 2010 (Nil – 2009) and accretion totaled $71 for the same period. The total interest expense for the quarter and the year ended December 31, 2010, was $416 and $1,013, respectively, (2009 - $183 and $433) and has been shown net of $42 in interest income in 2010. Interest expense has increased in the current quarter, as compared to last year, due to the increased debt levels relating to the related party loans and revolving facility.

Income Taxes

During the year ended December 31, 2010, the Company filed claims to obtain credits under the Federal and Provincial Scientific Research and Experimental Development programs ("SRED"). The claims filed will 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

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 $10,588 at December 31, 2010. The Company has put focus on its collection efforts as some of their largest customers have balances falling outside of expected payment terms. 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 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 the 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. The Company used the new facility to fund the Pharmacy acquisition and repay the existing long-term loan.

At December 31, 2010, the Company had total cash on hand of $9,210, an increase of $8,014 from the prior year (2009 decrease of $2,806). The changes in cash balances are explained below.

Operating Activities

For the year ended December 31, 2010, cash provided by operating activities was $5,945 compared to $3,010 for fiscal 2009. Non-cash working capital increased by $161 during 2010 versus a decrease in non-cash working capital of $509 in 2009. Receivables increased by $2,694 reflecting the higher sales in the year. Days sales outstanding ratio remained comparable from the prior quarter at approximately 61 days. Accounts payable and accrued liabilities increased by $2,036 for in 2010 which reflects payments according to terms with our vendors. Growth in the Disability Management and Active Health businesses are the main factors supporting this increase in accounts payable. Income taxes payable increased by $973 in 2010 compared to an increase of $24 in 2009.

Investing Activities

During the year ended December 31, 2010, the Company advanced $1,640 (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 of the loan receivable as of December 31, 2010 is $1,714. Included in the balance of this loan are the cash advances and fees of approximately $74.

On September 1, 2010, the Company acquired 100% of the outstanding shares 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 $414 for a government contract classified as a finite-life 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.

On October 1, 2010, the Company acquired the assets of Pharmacies for approximately $7,270 cash consideration and transaction costs of $205.
The Company invested in intangible software and intangible assets of $77 in the quarter ended December 31, 2010. For the year ended December 31, 2010 the Company invested $292 in intangible assets and $268 in an indefinite-life license to operate a sleep clinic.

The purchase of property and equipment used in the business during the year ended December 31, 2010 amounted to $515, compared to $581 in fiscal 2009 and was in line with management's expectations.

Financing Activities

During 2010, the Company renegotiated its financing with its bank by obtaining a $20,000 revolving facility at a floating rate of prime plus two percent. The facility was used to repay the existing long-term bank loan of $8,250 and funded the acquisition of the Pharmacy assets. The total amount advanced under the facility as at December 31, 2010 was $14,987.

During 2009, to complete the acquisition of Active Health, the Company obtained two sources of funding which included an $11,000 long-term 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. This loan was repaid in 2010. Interest was fixed on this loan by way of an interest rate swap. Interest is payable monthly at an annual rate of 5.65%.

At December 31, 2010, the Company was in compliance with all of the covenants on its revolving facility.

During the year ended December 31, 2010, the Company entered into loan agreements with a related party totaling $10,000. The loans were granted pursuant to two promissory notes. One bears interest at 6% with a conversion feature, and the other bears interest at 7% with no conversion feature. In addition to the promissory notes, the related party was issued a warrant to purchase one million common shares of the Company at the price of $1 each. The warrant expires on November 9, 2013.

Equity

Share Capital

During the year ended December 31, 2010, option holders exercised 975,000 options to purchase an equivalent number of shares at a weighted average exercise price per share of $0.21.

As at December 31, 2010, the Company had total shares outstanding of 63,190,095; of which 1,100,000 are restricted shares held by the CEO which vest over time as discussed in Note 12 to the Company's 2010 audited consolidated financial statements. As at December 31, 2009, there were 61,015,095 total shares outstanding. There were also 21,500,000 warrants outstanding as at December 31, 2010 entitling the holders to acquire 20,500,000 common shares at an exercise price of $0.33 per share and 1,000,000 shares at $1.00 per share.

As at December 31, 2010, there were a total of 6,100,000 options outstanding to purchase an equivalent number of common shares, with a weighted average exercise price of $0.70, expiring at various dates through 2020. The number of exercisable options at December 31, 2010 was 1,597,917 with a weighted average exercise price of $0.53.

As at the date of this report, March 9, 2011, the number of shares outstanding is 93,108,051; the number of options outstanding is 5,950,000; and, the number of warrants outstanding is 22,038,200. Included in the shares outstanding are 30,967,956 shares held in escrow, trust, or are subject to a hold period and are not freely tradeable.

Summary of Quarterly Results

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

(in thousands of dollars, except share amounts)

	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Fiscal year 2010				
Revenue and other income	$ 17,060	$ 15,755	$ 15,927	$ 13,740
Net income	$ 682	$ 1,326	$ 1,318	$ 1,002
Income (loss) per share				
Basic	$ 0.011	$ 0.022	$ 0.022	$ 0.016
Diluted	$ 0.009	$ 0.019	$ 0.019	$ 0.013
Fiscal year 2009				
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

The summary of quarterly results is illustrative of the overall growth in the business over the last eight quarters, both organically and through acquisitions. The last six quarters show the positive organic growth of the business after the acquisition of Active Health. The fourth quarter of 2010 shows the additional revenue of the acquired businesses of CAR and Pharmacies of $2,279. Without this additional revenue, the revenue of the business would have been $14,781. This is due to the slight seasonality of the Centric Disability Management business as well as the impact of the regulatory changes enacted on September 1, 2010.

The decreased net income for the fourth quarter compared to the previous quarters is indicative of the additional start-up costs for the acquisitions, additional infrastructure and corporate costs, higher professional and consulting fees due to the broader scope of services required for the size of the Company, additional stock-based compensation expense, additional fees to GHIS and additional interest expense on the debt outstanding in the third and fourth quarters.

The Company's revenues in the fourth 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 and fourth quarters. Revenues from Active Health and DMSU have remained steady quarter to quarter.

Quarterly results in the comparative 2009 period show the impact of the acquisition of Active Health on the overall results of the Company. In the fourth quarter of 2009, the Company recorded a one-time restructuring charge of $600 related to the acquisition and integration of the Active Health business which contributed significantly to the Company's overall quarterly performance. 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.

(in thousands of dollars, except share amounts)

Contractual Commitments

During the year ended December 31, 2010, the Company entered into loan agreements with a related party totalling $10,000. The loans were granted pursuant to two promissory notes. One bears interest at 6% with a conversion feature, and the other bears interest at 7% with no conversion feature. Interest accrues and is payable quarterly. During the year ended December 31, 2010, the Company renegotiated its long-term loan by entering into a revolving facility. The revolving facility does not require quarterly principal payments and matures in two years. The long-term loan required principal repayments of $550 quarterly and had a term of five years. Other than these items mentioned above, there have been no significant changes in the Company's contractual obligations.

The Company's contractual commitments at December 31, 2010 are summarized in the following table:

	Total	1 year	1-3 years	4-5 years	Thereafter
Revolving facility	$ 14,531	$ -	$ 14,531	-	-
Related party debt	$ 10,000	$ 5,000	$ 5,000	-	-
Operating leases	$ 3,957	$ 1,415	$ 2,139	$ 360	$ 43
Total	$ 28,488	$ 6,415	$ 21,670	$ 360	$ 43

Off-Balance Sheet Arrangements

As at December 31, 2010, the Company has no off-balance sheet arrangements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

The Certifying Officers have concluded that, as at December 31, 2010, The Company's DC&P has been designed effectively to provide reasonable assurance that (a) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted, recorded, processed, summarized and reported within the time periods specified in the securities legislation. They have also concluded that the Company's ICFR have been designed effectively to provide reasonable assurance regarding the reliability of the preparation and presentation of the financial statements for external purposes and were effective as at December 31, 2010.

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

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes in line with generally accepted accounting principles in Canada. Management is responsible for establishing and maintaining adequate internal controls over financial reporting appropriate to the nature and size of the Company. However, any system of internal control over financial reporting has inherent limitations and can only provide reasonable assurance with respect to financial statement preparation and presentation.

The Company used the COSO control framework. There were no material changes to the Company's internal controls over financial reporting that occurred during the year ended December 31, 2010 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

Transactions with Related Parties

Related party transactions, in addition to those with Company directors and management, have been entered into with Global Healthcare Investments and Solutions, Inc. ("GHIS") and entities controlled by the shareholders of GHIS who own 31,750,000 shares or approximately 51% of the issued and outstanding common shares of the Company as of December 31, 2010. Jamon Investments LLC ("Jamon") is an associate of Dr. Jack Shevel, the Chairman of the Company, and GHIS Capital Inc. ("GHIS Capital") is related to GHIS by common control. Dr. Shevel is also the President of GHIS.

(in thousands of dollars, except share amounts)

A summary of the transactions with related parties for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
General and administrative expenses:		
Brenras	$ -	$ 360
GHIS	874	478
Interest payable to Jamon	92	-
Interest paid to GHIS Capital	-	21

During the year ended December 31, 2010, the Company incurred expenses payable to GHIS for its strategic advisory services pursuant to a consulting agreement with the Company. The GHIS consulting agreement provides that it receive fees based on up to 1.5% for completing financing, mergers and acquisitions, $20 per month as an advisory fee and 1% of the Company's weighted average market capitalization on an annual basis provided that the Company's market capitalization exceeds $20,000 in the period. In addition to the fees earned, travel and other administrative expenses incurred on behalf of the Company are reimbursed to GHIS and are included in the total general and administrative expenses above in the amount of $68 (2009 - $24).

The fees earned for the years ended December 31, 2010 and 2009, according to the consulting arrangement with GHIS are as follows:

Fees earned by GHIS in the year ended December 31,	2010	2009
Completion fees	$ 137	$ -
Advisory fees	240	220
Market capitalization fee	429	234
Total fees	$ 806	$ 454

Included in accounts payable and accrued liabilities at December 31, 2010 and 2009, are $ 237 and $254, respectively, due to GHIS; and $92 and nil, respectively for interest payable to Jamon.

During the year ended December 31, 2010, the Company entered into loan agreements with Jamon totalling $10,000. The loans were granted pursuant to two promissory notes. One bears interest at 6% with a conversion feature, and the other bears interest at 7% with no conversion feature. In addition to the promissory notes, Jamon was issued a warrant to purchase 1 million common shares of the Company at the price of $1 each. The warrant expires on November 9, 2013. The fair values of the loans, conversion feature and warrant were recorded at inception as follows:

	At inception
Related party loans:	
Convertible loan at 6%	$ 3,880
Conversion feature (equity)	1,444
Related party loan at 7%	4,388
Warrant	289
Total consideration	$ 10,000

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.

Proposed Transactions

Significant Transaction

On January 18, 2011 the Company announced that it is in negotiations with a third party to make a significant business acquisition. While the Company is optimistic that it can successfully conclude this acquisition, there is no binding agreement at this time; and, no assurances can be given by the Company that this transaction will be completed.

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 of goodwill has occurred requires a valuation of the respective business unit, based on its fair value, which is based on a number of factors, including discounted cash flows, future business plans, economic projections and market data.

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

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 methods, that there was no impairment to goodwill or the intangible assets as at December 31, 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 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 has been 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 are prepared for internal use and have been presented to senior management and the audit committee for their review.

Business Activities

The Company reviewed all of its acquisitions completed in 2010 to assess how these transactions will be impacted by the transition to IFRS. In particular, the Company assessed the impact from the different treatment of contingent consideration and transaction costs. Under IFRS, transaction costs are expensed as incurred which will negatively impact the results of operations in 2011 and future years should the Company continue making acquisitions. 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. For the year ended December 31, 2010, the fixed asset sub ledger system was fully utilized to capture component data. 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 implementation of IFRS. Management will oversee implementation of additional procedures to ensure appropriate internal controls are maintained over financial reporting. On an ongoing basis, management will continue to conduct reviews of internal control requirements and effectiveness.

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 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 conclusions are as follows:

IFRS 1- First-time Adoption of IFRS ("IFRS 1")

Management has reviewed its available exemptions under IFRS 1 – *First time adoption of IFRS* ("IFRS 1") 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.

Transaction costs incurred prior to transition, have been deferred under GAAP and will be expensed upon transition to IFRS. The Company will take a charge of approximately $64 against retained earnings upon transition for capitalized transaction costs relating to potential acquisitions that had not occurred as at January 1, 2010. In addition, during 2010, the Company capitalized approximately $346 in transaction costs related to completed acquisitions and attributed these costs to the total cost of the acquisition; and, an additional $859 of transaction costs were deferred and shown as deferred acquisition costs on the balance sheet. These costs related to transactions expected to be consummated in 2011. The effect of expensing these costs will be shown in the comparative 2010 results on the Company's 2011 financial statements prepared in accordance with IFRS. Under IFRS, these costs will be expensed as incurred.

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 comprise 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 $25.

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 on an ongoing basis.

IFRS 2 – Share-based Payments ("IFRS 2")

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 expedite the recognition of the compensation expense associated with stock options over the vesting period in comparison with the straight-line amortization of the expense under GAAP. In addition, IFRS 2 requires the company to estimate historical forfeiture rates, estimate the life of the options and the number of awards vested in each period. The

Company will recognize a $25 charge to retained earnings as a reconciling item on its opening January 1, 2010 balance sheet upon transition.

IFRS 3 - Business Combinations ("IFRS 3")

Management has identified that the 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 the total cost of the acquisition and allocates the total cost to the fair value of 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 twelve months ended December 31, 2010 were $603 and $794, respectively.

The acquisition of the Sleep Clinic business incurred transaction costs of $18 which were allocated to the sleep license on the balance sheet. These costs would be expensed as incurred when the financial statements are restated to comply with IFRS.

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. In addition, $123 of transaction costs were capitalized in the acquisition which will be expensed in the period incurred when the financial statements are restated to comply with IFRS.

The acquisition of the Centric Pharmacy assets in the fourth quarter of 2010 was a cash purchase of assets. Approximately $205 in transaction costs were capitalized in the purchase price allocation to the assets of the Pharmacy which will be expensed in the period incurred when the financial statements are restated to comply with IFRS.

In total, for the year ended December 31, 2010, an additional $346 in transaction costs will be expensed as incurred relating to the completed transactions in the year and $859 in costs reflected as deferred charges on the balance sheet at December 31, 2010 will be expensed as incurred when the financial statements are restated to comply with IFRS.

IAS 12 – Income Taxes ("IAS 12")

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 IAS 12 will not affect the internal processes over calculating and maintaining tax records as this data is readily available using current systems.

IAS 16 – Property, Plant and Equipment ("IAS 16")

Under IAS 16, 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 ("IAS 18")

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 IAS 18. Management concluded that all sources of currently recognized revenue under GAAP will continue to be recognized under IFRS.

IAS 24 – Related Party Disclosures ("IAS 24")

Centric does not believe that adoption of IAS 24 will have a significant impact on its financial statements. The required additional disclosures have been evaluated and 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 of Long-lived Assets ("IAS 36")

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 under GAAP at December 31, 2009 on the intangible assets recorded on its balance sheet at that time. Impairment tests for IFRS have been ongoing during 2010 in conjunction with the impairment testing done under Canadian GAAP. Management has made a preliminary conclusion that under IAS 36, its private hospital license held in its DMSU division was impaired by $371 as of January 1, 2010. All other intangible assets were assessed and no impairment was recorded.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

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 IAS 37. 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 IAS 37. On transition, $267 previously recognized as a provision for restructuring in connection with the Active Health acquisition did not meet the recognition criteria under IAS 37 and will be a reconciling item on our opening January 1, 2010 balance sheet.

In addition to the sections noted above, there are more extensive presentation and disclosure requirements under IAS 37 as compared to GAAP. These have been noted in the Company's detailed analysis and are included in the preliminary 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.

The Company has summarized the impact of IFRS on its January 1, 2010 opening balance sheet in the following table:

Unaudited As at December 31, 2009 (Canadian dollars in thousands)	**Canadian GAAP December 31, 2009**	**First-time adoption of IFRS (IFRS 1)**	**Financial instruments (IAS 39)**	**Share-based payments (IFRS 2)**	**Impairments (IAS 37)**	**Provisions (IAS 37)**	**IFRS January 1, 2010**
ASSETS							
Cash	$ 1,196						$ 1,196
Accounts receivable[2]	8,432						8,432
Property and equipment	952						952
Intangible assets[3]	6,627				(371)		6,256
Goodwill[4]	14,213					(267)	13,946
Deposits and other assets[5]	225	(64)					161
	$ 31,645	(64)	-	-	(371)	(267)	**$ 30,943**
LIABILITIES							
Current liabilities[6]	$ 6,057					(267)	$ 5,790
Long-term debt	9,268						9,268
Future income taxes	284						284
Derivative liability	121						121
Other long-term liabilities	92						92
	15,822					(267)	15,555
SHAREHOLDERS' EQUITY							
Share capital	8,921						8,921
Warrants	2,957						2,957
Contributed surplus[7]	1,166			25			1,191
Retained earnings	2,900	(64)		(25)	(371)		2,440
Accumulated other comprehensive loss	(121)						(121)
	15,823	(64)		-	(371)	-	15,388
	$ 31,645	(64)	**-**	**-**	**(371)**	**(267)**	**$ 30,943**

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).

2 Certain balances have been condensed from the 2009 audited consolidated financial statements.

3 Under IFRS an impairment test was done on each class of intangible asset. The hospital license held by DMSU was found to be impaired by $371 as at January 1, 2010. This amount has been adjusted and recorded in our opening balance sheet.

4 Certain provisions included in the transaction costs capitalized to goodwill in the acquisition of Active Health in 2009 were not paid before the transition date. Under IFRS, the provisions would be valid and fall under the IFRS 1 exemption for business combinations if the relevant event had taken place before the date of transition. In the case of these restructuring costs, the events took place in 2010 and will be expensed as incurred.

5 This amount includes deferred financing charges which cannot be capitalized under IFRS. Deferred charges on the 2009 balance sheet that have been charged to retained earnings on transition total $64.

6 Same as note 4.

7 Adjustment for share-based payments being amortized on the graded vesting basis under IFRS.

Competition

The markets for Centric Disability Management`s products are intensely competitive, subject to rapid change and significantly affected by market activities of other industry participants.

There is little, other than relationships the Company has built up with insurance companies, to prevent the entrance into the disability management sector of those wishing to provide similar services to those provided by Work Able Centres and Direct Health Solutions. Work Able Centres and Direct Health Solutions also compete for the provision of consulting services from independent healthcare professionals. Competitors with greater capital and/or experience may enter the market or compete for referrals from insurance companies and the services of available health care professionals. There can be no assurance that Work Able Centres and Direct Health Solutions will be able to compete effectively for these referrals and healthcare professionals, that additional competitors will not enter the market, that such competition will not make it more difficult or expensive to provide disability management services or that competitive pressures in the provision of these services in a geographic region will not otherwise adversely affect Centric.

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 future financial results of this division. To mitigate any negative impact, the disability management division has expended resources to diversify offerings and expand its customer base to best capture the optimal sales mix in the marketplace. In the fourth quarter of 2010, sales were maintained at a consistent level after the change in legislation was effective.

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

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 derived approximately 45% of its revenues for the year ended December 31, 2010 (2009 – 35%) from billings through its government billing privilege and as such is subject to concentration risk associated with its reliance on such billings.

Acquisition and Integration

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

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

(a) Management may not be able to manage successfully the acquired operations and the integration may place significant demands on management, thereby diverting its attention from existing operations;

(b) Operational, financial and management systems may be incompatible with or inadequate to integrate into Centric's systems and management may not be able to utilize acquired systems effectively;

(c) Acquisitions may require substantial financial resources that could otherwise be used in the development of other aspects of the business;

(d) Acquisitions may result in liabilities and contingencies which could be significant to the Company's operations; and

(e) Personnel from Centric's acquisitions and its existing businesses may not be integrated as efficiently or at the rate foreseen.

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

Referrals

The success of Centric Disability Management is currently dependent upon insurance company referrals of patients for assessment and rehabilitation procedures. These referrals come through preferred provider and other service agreements established through competitive tendering processes. If a sufficiently large number of service agreements were discontinued, the business, financial condition and results of operations of Centric could be adversely affected.

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

Shortage of Healthcare Professionals

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

Exposure to Epidemic or Pandemic Outbreak

As Centric's businesses are focused on healthcare, its employees and/or facilities could be affected by an epidemic or pandemic outbreak, either within a facility or within the communities in which Centric operates. Despite appropriate steps being taken to mitigate such risks, there can be no assurance that existing policies and procedures will ensure that Centric's operations would not be adversely affected.

Confidentiality of Personal and Health Information

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

Information Technology Systems

Centric's businesses depend, in part, on the continued and uninterrupted performance of its information technology systems. Sustained system failures or interruptions could disrupt the Company's ability to operate effectively, which in turn could adversely affect its business, results of operations and financial condition.

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

Key Personnel

The Company believes that its future success will depend significantly upon its ability to attract, motivate and retain highly skilled executive management. In addition, the success of each business unit depends on employing or contracting, as the case may be, qualified healthcare professionals. Currently, there is a shortage of such qualified personnel in Canada. The loss of healthcare professionals or the inability to recruit these individuals in markets that the Company operates in could adversely affect the Company's ability to operate its business efficiently and profitably.

Litigation and Insurance

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

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

Internal Control over Financial Reporting and Disclosure Controls and Procedures

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

Capital Investment

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

Dilution

The Company's by-laws authorize the Company, in certain circumstances, to issue an unlimited number of shares for the consideration and on those terms and conditions as are established by the Board without the approval of the Shareholders. Any further issuance of shares may dilute the interests of existing shareholders.

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 December 31, 2010:

i. On January 19, 2011, the Company acquired Surgical Spaces Inc. ("SSI"), the owner and operator of two of Canada's leading ambulatory healthcare facilities, False Creek Surgical Centre in Vancouver ("FCSC") and Maples Surgical Centre in Winnipeg ("MSC") for $8,150 in cash and up to 11.8 million shares in the Company. Surgical Spaces operates state-of-the-art facilities which offer same day surgery and overnight procedures. The FCSC and MSC have some of the most advanced technology available in the areas of 3T magnetic resonance imaging, 64 slice CT scans, diagnostic ultrasound, and X-ray. This all inclusive medical destination also offers executive wellness, family health practice, specialty services and an urgent care centre.

   SSI is an independent owner and operator of private healthcare centres in Canada. The Company established its first surgical centre in the city of Vancouver, BC (False Creek Surgical Centre) in April of 1999. The Company's second facility, located in Winnipeg, MB, (Maples Surgical Centre) opened in 2001. In 2006, the Company expanded its Vancouver facility to include a full primary care infrastructure including a fully equipped emergency room and a state of the art advanced diagnostic imaging department to create a vertically integrated health centre for its patients. The Company and its subsidiaries operate and manage both FCSC and MSC as surgical facilities. FCSC and MSC offer same day surgery and overnight procedures. The medical services offered include cosmetic, plastic, reconstructive, orthopedic, gynecology, general surgery, urology, neurosurgery and ear, nose and throat. Advanced interventional pain management programs are offered as well as minimally invasive medical/surgical procedures that cover many medical specialties. SSI also offers primary care, emergency and diagnostic services and executive health and wellness programs. Customers include nonresidents, Regional Health Authorities, Workers' Compensation Boards, the Royal Canadian Mounted Police, and Canadian Department of Defence.

ii. On March 3, 2011, the Company announced that it completed its previously announced private placement of 17,940,000 shares at a price of $1.20 per share for gross proceeds of $21,528. This included 2,340,000 shares issued pursuant to the exercise of an over-allotment option granted to the underwriters representing proceeds of $2,808. In addition, the underwriters received 538,200 warrants to purchase an equivalent number of shares at an exercise price of $1.27 and which are exercisable for a period of two years.

iii. The deposit included in current assets at December 31, 2010, was a returnable deposit to secure exclusive negotiation rights to purchase assets of a pharmacy business. Those negotiations terminated without any assets being purchased, and the full deposit was returned to the Company, prior to the date of completion of these financial statements.

Additional Information

Additional information about the Company, including the Annual Information Form, can be found on the SEDAR website at www.sedar.com.

Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Centric Health Corporation were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting policies and processes that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 2 to the consolidated financial statements.

Management has established a system of internal control over the financial reporting process, which is designed to provide reasonable assurance that relevant and reliable information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee which is comprised of independent non-executive directors assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee also reviews other annual filings to ensure that the financial information reported therein is consistent with the information presented in the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Daniel Carriere"
Chief Executive Officer

"Peter Walkey"
Chief Financial Officer

March 10, 2011

PricewaterhouseCoopers LLP
Chartered Accountants
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North York, Ontario
Canada M2M 4K7
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March 10, 2011

Independent Auditor's Report

To the Shareholders of
Centric Health Corporation

We have audited the accompanying consolidated financial statements of Centric Health Corporation and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Centric Health Corporation and its subsidiaries as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matter

The consolidated financial statements of Centric Health Corporation for the year ended December 31, 2009, were audited by another auditor who expressed an unmodified opinion on those consolidated statements on March 3, 2010.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Centric Health Corporation
Consolidated Balance Sheets
(in thousands of dollars)
as at December 31,

		2010		2009
Assets				
Current Assets				
Cash *(note 18)*	**$**	**9,210**	$	1,196
Accounts receivable		**10,588**		7,500
Accrued receivables		**1,420**		932
Inventory		**230**		-
Deposit (*note 18)*		**1,266**		-
Prepaid expenses		**208**		161
		22,922		9,789
Loan receivable *(note 3)*		**1,714**		-
Property and equipment *(note 8)*		**1,449**		952
Intangible assets *(note 9)*		**9,571**		6,627
Goodwill *(note 9)*		**19,029**		14,213
Deferred acquisition costs		**859**		64
	$	**55,544**	$	31,645
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities *(note 6)*	**$**	**8,251**	$	6,088
Income taxes payable		**1,032**		90
Future income taxes - current		**-**		19
Related party loan *(note 6)*		**4,434**		-
Current portion of long-term loan (*note 11*)		**-**		2,200
		13,717		8,397
Revolving facility *(note 11)*		**14,531**		-
Long-term loan *(note 11)*		-		7,068
Related party convertible loan *(note 6)*		**3,904**		-
Future income taxes *(note 10)*		**747**		265
Deferred lease inducement		**69**		92
		19,251		7,425
Shareholders' Equity				
Share capital *(note 12)*		**9,240**		8,921
Warrants *(note 12)*		**3,246**		2,957
Contributed surplus *(note 12)*		**1,546**		1,166
Equity portion of related party convertible loan *(note 6)*		**1,444**		-
Accumulated other comprehensive loss *(note 13)*		**(128)**		(121)
Retained earnings		**7,228**		2,900
		22,576		15,823
	$	**55,544**	$	31,645

Commitments *(note 16)*
Contingencies *(note 17)*
The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board

Director

"Dr. Jack Shevel"

Dr. Jack Shevel

Director

"Tom Magyarody"

Tom Magyarody

Centric Health Corporation
Consolidated Statements of Income
(in thousands of dollars, except per share amounts)
for the years ended December 31,

		2010		2009
Revenue	**$**	**62,482**	$	36,623
Expenses				
Direct costs		**46,098**		26,188
General and administrative *(note 6)*		**8,168**		6,954
Stock-based compensation *(note 12)*		**493**		140
Amortization *(notes 8 and 9)*		**496**		371
		55,255		33,653
Income before interest expense and income taxes		**7,227**		2,970
Interest expense (net) *(note 11)*		**971**		433
Income before income taxes		**6,256**		2,537
Provision for income taxes - current *(note 10)*		**1,559**		574
- future *(note 10)*		**369**		323
		1,928		897
Net income for the year	**$**	**4,328**	$	1,640
Basic earnings per common share	**$**	**0.071**	$	0.032
Diluted earnings per common share	**$**	**0.060**	$	0.025
Weighted Average Number of Common Shares Outstanding (in thousands) ***(note 12)***				
Basic		**61,176**		50,937
Diluted		**72,696**		65,906

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

Centric Health Corporation
Consolidated Statements of Comprehensive Income
(in thousands of dollars)
for the years ended December 31,

		2010		2009
Net income for the year	**$**	**4,328**	$	1,640
Other comprehensive loss for the year *(note 13)*		**(7)**		(121)
Comprehensive income for the year	**$**	**4,321**	$	1,519

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

Centric Health Corporation
Consolidated Statements of Shareholders' Equity
(in thousands of dollars)

	Share Capital							
	Number of Shares	**Amount**	**Warrants**	**Contributed Surplus**	**Conversion Feature**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total**
Balance at December 31, 2008	**36,581,762**	**$ 3,928**	**$ –**	**$ 1,268**	**$ –**	**$ –**	**$ 1,260**	**$ 6,456**
Issued on acquisition of Active Health	3,333,333	1,000	–	–	–	–	–	1,000
Private placement	20,500,000	3,753	–	–	–	–	–	3,753
Issuance of warrants	–	–	2,957	–	–	–	–	2,957
Options exercised	600,000	240	–	(84)	–	–	–	156
Deferred compensation expensed in the year	–	–	–	140	–	–	–	140
Non-controlling interest	–	–	–	(158)	–	–	–	(158)
Other comprehensive loss *(note 13)*	–	–	–	–	–	(121)	–	(121)
Net income for the year	–	–	–	–	–	–	1,640	1,640
Balance at December 31, 2009	**61,015,095**	**8,921**	**2,957**	**1,166**	**–**	**(121)**	**2,900**	**15,823**
Options exercised *(note 12)*	975,000	319	–	(113)	–	–	–	206
Issued as deferred compensation *(note 12)*	100,000	–	–	–	–	–	–	–
Deferred compensation expensed in the year *(note 12)*	–	–	–	493	–	–	–	493
Issuance of warrants in the year *(notes 6 and 12)*		–	289	–	–	–	–	289
Equity portion of related party convertible debt *(note 6)*	–	–	–	–	1,444	–	–	1,444
Other comprehensive loss *(note 13)*	–	–	–	–	–	(7)	–	(7)
Net income for the year	–	–	–	–	–	–	4,328	4,328
Balance at December 31, 2010	**62,090,095**	**$ 9,240**	**$ 3,246**	**$ 1,546**	**$ 1,444**	**$ (128)**	**$ 7,228**	**$ 22,576**

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

Centric Health Corporation
Consolidated Statements of Cash Flows
(in thousands of dollars)
for the years ended December 31,

		2010		2009
Cash flow from operating activities				
Net income for the year	**$**	**4,328**	$	1,640
Items not affecting cash:				
Amortization of property and equipment		**266**		246
Amortization of finite-life intangible assets		**230**		125
Amortization of loan arrangement costs		**349**		71
Lease inducement		**(23)**		(23)
Future income taxes		**463**		323
Stock-based compensation		**493**		140
Decrease in non-controlling interest		**-**		(21)
Changes in non-cash working capital items *(note 7)*		**(161)**		509
Cash provided by operating activities		**5,945**		3,010
Investing activities				
Advances on loan receivable		**(1,714)**		-
Increase in deferred acquisition costs		**(795)**		(64)
Acquisition of businesses *(note 4)*		**(8,521)**		(20,599)
Deposit		**(1,266)**		-
Proceeds from disposition of equipment		**7**		-
Purchase of intangible assets		**(292)**		-
Acquisition of non-controlling interest		**-**		(750)
Purchase of property and equipment		**(515)**		(581)
Cash used in investing activities		**(13,096)**		(21,994)
Financing activities				
Lease inducement		**-**		115
Proceeds of long-term loan		**-**		10,297
Proceeds of revolving facility *(note 11)*		**16,737**		-
Proceeds from issuance of related party convertible loan *(note 6)*		**5,000**		-
Proceeds from issuance of related party loan *(note 6)*		**5,000**		-
Repayment of long-term loan *(note 11)*		**(1,650)**		(1,100)
Repayment of interest rate swap		**(128)**		
Repayment of revolving facility *(note 11)*		**(10,000)**		-
Proceeds from issuance of shares and warrants, net of issue costs *(note 12)*		**206**		6,866
Cash provided by financing activities		**15,165**		16,178
Increase (decrease) in cash		**8,014**		(2,806)
Cash, beginning of year		**1,196**		4,002
Cash, end of year	**$**	**9,210**	$	1,196

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

1. Business of the Company

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 patients and customers.

The results of operations presented in the 2010 financial statements include four months of the operations of Community Advantage Rehabilitation Inc. and three months of operations of Centric Pharmacy Inc.; two businesses acquired in fiscal 2010.

The operating results presented in the 2009 comparative financial statements include seven months of operations for the Active Health business acquired on May 29, 2009.

2. Significant Accounting Policies

Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts disclosed are in thousands of Canadian dollars, unless otherwise stated.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Centric Disability Management Inc., ("CDM"), Don Mills Surgical Unit Ltd. and Don Mills Surgical Centres Ltd. (collectively "DMSU"), Direct Health Solutions (2) Inc., Alegro Health Partners Inc. ("AHP"), Active Health Services Ltd. ("Active Health"), Community Advantage Rehabilitation Inc., ("CAR") and Centric Pharmacy Inc. ("CP").

Property and Equipment and Finite-Life Intangible Assets

Property and equipment are recorded at cost. Amortization is provided on bases designed to amortize the costs of the assets over their expected useful lives as follows:

Office furniture, fixtures and equipment	- 5 and 10 years straight-line
Work simulation and facility equipment	- 10 years straight-line
Computer equipment	- 30% declining balance
Medical equipment	- 5 years straight-line
Physiotherapy equipment	- 30% declining balance
Leasehold improvements	- straight-line over the term of the lease
Prescription files	- straight-line over 10 years
Software	- straight-line over 7 years

2. Significant Accounting Policies - continued

Inventory Valuation

Inventory is comprised of merchandise inventory at Centric Pharmacy Inc. and is valued at the lower of cost and estimated net realizable value, with cost being determined on the first-in, first-out basis. Cost includes all direct costs incurred in bringing inventory to its present location and condition. The Company classifies rebates received from a vendor as a reduction to the cost of inventory unless the rebate clearly relates to the reimbursement of a specific expense.

Impairment of Long-lived Assets

The Company reviews long-lived assets, namely property and equipment and finite-life intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of impairment of the carrying value of long-lived assets exist, and the carrying value is greater than the projected undiscounted future net cash flows, an impairment loss is recognized to the extent that the fair value is below the carrying value.

Goodwill and Indefinite-life Intangible Assets

Goodwill represents the excess of the costs of an acquired business over the fair value of the underlying identifiable tangible and intangible net assets acquired. The Company's indefinite-life intangible assets are comprised of a private hospital licence, government billing privilege, Community Care Access Centre ("CCAC") contract and sleep clinic license. In accordance with the requirements of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets", the Company does not amortize goodwill or the indefinite-life intangible assets. Goodwill is subject to an annual, or earlier, impairment test when circumstances indicate impairment may exist.

The need for any write-down of the goodwill due to impairment in value is based on the assessment of the fair value of its respective reporting units. The Company estimates the fair value of a reporting unit which is then compared to its carrying value. If the fair value of the reporting unit is less than its carrying value, the fair value of the reporting unit's goodwill must be estimated. Impairment losses will be recorded if the carrying amount of the goodwill exceeds its estimated fair value. Any write-down of goodwill arising from impairment in value will be recorded in the period in which the impairment is identified as a charge to earnings.

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

Lease Inducements

The Company recognizes rental expense on leased premises on a straight-line basis over the initial term of the lease. Lease inducements received by the Company as reimbursement of leasehold improvement costs incurred are deferred and amortized on a straight-line basis over the term of the lease as a reduction in rental expense.

2. Significant Accounting Policies - continued

Deferred Acquisition Costs

Legal and other costs directly attributable to acquisition transactions are reported as deferred acquisition costs until the transactions are completed if the completion of the transaction is considered to be more likely than not. These costs will be included in the cost of acquisitions upon closing or expensed if the acquisitions are not concluded.

The deferred acquisition costs at December 31, 2009 represented legal and other costs directly related to the proposed acquisitions of various businesses. During the year ended December 31, 2010, these costs have been included in the purchase price of completed acquisitions.

Financial Instruments

Financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Financial instruments are included on the consolidated balance sheets and are measured at fair value except for loans and receivables. Held-to-maturity investments and other financial liabilities are measured at amortized cost. Held-for-trading financial instruments are subsequently measured at fair value and all gains and losses are included in net income in the period which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading; accounts receivable and accrued receivables as loans and receivables; and accounts payable, accrued liabilities, operating facility and long-term loan as other financial liabilities.

Revenue Recognition

Revenue for independent medical assessments is recognized when services have been completed, the price is fixed or determinable, and collection is reasonably assured. Accrued receivables represent an accrual for revenue recognized on completed and unbilled assessments. The estimated cost incurred relating to the completed assessments is included in accrued liabilities. Revenue for other services, such as work conditioning treatments and case management services, are recognized when the service is completed, the price is fixed or determinable, and collection is reasonably assured.

Revenue for physiotherapy and home care services to patients under government insurance plans are recognized when the service is completed, the price is fixed or determinable, and collection is reasonably assured. This is generally at the time billing of the completed services is submitted to the insurance plan.

Revenue from patient services is recorded at the time when the services are performed. Patient services paid in advance are recorded as deferred revenue and recognized as revenue once the procedure has been performed.

Revenue from member clinics referred through the Company is recognized when the service has been provided and is available to be billed.

2. Significant Accounting Policies - continued

Government funding from the Ministry of Health and Long-Term Care ("MOHLTC") is recognized as revenue when receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. These services are considered receivable when rendered, and are available to be billed to the MOHLTC.

Pharmacy sales revenue is recorded when the prescription claim has been adjudicated, the prescription or retail purchase has been delivered to the customer, the price is fixed or determinable and payment is received or reasonably assured to be collectible.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income tax payable for the current period. Future income tax assets and liabilities are determined based on the differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits, such as operating loss carry forwards. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

Stock-based Compensation

The Company has a stock option plan for directors, officers, employees and consultants as described in Note 12. Compensation expense for stock options is measured at fair value at the date of grant using the Black-Scholes option pricing model. If the award is for future service, the compensation cost of a stock-based award to employees is recognized, over the period in which the related employee services are rendered, by a charge to compensation cost. If the service period is not defined as an earlier or shorter period, the service period is presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service. If an award is for past services, the related compensation cost is recognized in the period in which it is granted.

Earnings per Share

Earnings per share is calculated on the basis of net income for the year divided by the weighted average number of common shares outstanding during each year. Diluted earnings per share is calculated using the treasury stock method based on the weighted average number of common shares outstanding accounting for the dilutive effect of outstanding options, convertible debt and warrants.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian GAAP 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. Actual results could differ from those estimates.

2. Significant Accounting Policies - continued

Management has used estimates in assessing the carrying value of intangible assets, estimating useful lives of its property and equipment, valuation of stock-based compensation, future income taxes as well as accruals of liabilities and receivables.

Reclassifications

Certain 2009 amounts have been reclassified to conform to the current year's presentation.

Future Accounting Changes

International Financial Reporting Standards

The Company will transition to International Financial Reporting Standards ("IFRS") effective January 1, 2011. The Company will issue financial statements in accordance with IFRS commencing in the first quarter of fiscal 2011 with comparative information restated to conform with IFRS. While IFRS standards are premised on a conceptual framework similar to Canadian GAAP, there are differences in the areas of recognition, measurement and disclosure that may materially impact the Company's financial statements. The transition to IFRS represents a significant initiative by management and as such, management has established an IFRS Steering Committee with a mandate to oversee the conversion process. An assessment has been completed to identify the key accounting differences between Canadian GAAP and IFRS. The impact of these differences to the Company's financial results at the time of transition and on implementation is currently being assessed. The impact of IFRS to the Company's financial statements at the transition will depend on the IFRS standards in effect at the time, accounting elections that have not yet been made and the prevailing business and economic facts and circumstances.

3. Loan Receivable

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 the earlier of the loan maturity or six months in arrears. The loan and any accrued interest is due on 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 December 31, 2010, the Company has made cash advances to Intervent in the amount of $1,640 and has included in the loan receivable, fees related to the loan of $74. The fees are amortized over the term of the loan. Interest accrued to December 31, 2010 is $42.

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

4. Acquisitions

On June 10, 2010, the Company, through its subsidiary, Direct Health Solutions (2) Inc., acquired the assets of a sleep clinic operating in the city of Toronto. The purchase price of the assets was $250 with transaction costs incurred of approximately $18. The purchase price of the business was allocated as follows:

Purchase Price		
Cash consideration	$	250
Transaction costs		18
	$	268
Fair Value of Net Assets Acquired		
Sleep clinic license (note 9)	$	268
	$	268

On September 1, 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 majority of CAR's patients are referred to CAR by the local CCAC[1]. Fees are paid to CAR by the CCAC for the services rendered in accordance with the terms of the service contract between CAR and the CCAC.

The purchase price of the acquisition includes $500 in cash paid upon closing. The balance of the purchase price may be paid by the issuance of up to 2,142,857 shares of the Company and is contingent on the performance of CAR achieving certain predetermined earnings targets over the next three years. In addition, if CAR surpasses the established EBITDA (as defined) targets for the three-year earn-out period, the former owners of CAR are entitled to up to 1,000 warrants to buy shares of the Company. The contingent consideration was not valued at the time of closing as future performance cannot be reasonably estimated.

The purchase price was recorded as follows:

Purchase Price		
Cash consideration	$	500
Transaction costs		123
	$	623
Fair Value of Net Assets Acquired		
Current assets	$	435
Property and equipment		24
CCAC[1] Contract (note 9)		414
Future income taxes (note 10)		(65)
		808
Current liabilities		(185)
	$	623

[1] CCAC – Community Care Access Centre, a community based program for healthcare services that are funded through the Ontario Ministry of Health and Long-term Care.

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

4. Acquisitions - continued

On October 1, 2010, the Company, through its subsidiary, Centric Pharmacy Inc., acquired the assets of two retail pharmacies located on the campus of Southlake Regional Health Centre in Newmarket, Ontario. The purchase price of the assets was $7,270 paid in cash on closing.

Purchase Price		
Cash consideration	$	7,270
Transaction costs		205
	$	7,475
Fair Value of Net Assets Acquired		
Current assets	$	285
Property and equipment		232
Prescription files (note 9)		2,200
Goodwill (note 9)		4,848
Future income taxes (note 10)		(90)
	$	7,475

With respect to the pharmacy acquisition, the allocation of purchase price to identifiable assets and goodwill has been made at the time of the acquisition and is preliminary in nature. The Company expects to finalize the allocation in the first half of 2011.

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

4. Acquisitions - continued

On May 29, 2009, The Company acquired substantially all of the non-cash operating assets (net of assumed liabilities) of The Brenda Rusnak Clinics Inc. and ACTIVE Health Management Inc., both, privately-held companies that specialize in the provision of physiotherapy and other rehabilitation services ("Active Health").

The transaction has been accounted for using the purchase method of accounting. This method requires that the assets and liabilities purchased be recorded at their fair value as at their date of acquisition. The results of Active Health have been included in the consolidated financial statements since May 29, 2009.

Purchase Price of Active Health		
Cash consideration	$	19,665
Issuance of 3,333,333 common shares of the Company		1,000
Transaction and integration costs		1,272
	$	21,937
Fair Value of Net Assets Acquired		
Current assets	$	5,329
Property and equipment		285
Software		1,500
Government billing privilege		4,105
Goodwill		14,134
		25,353
Current liabilities		(3,416)
	$	21,937

As a result of the acquisition of Active Health, the Company obtained one of the limited number of designated physiotherapy billing privilege numbers allowing the Company to bill the Ministry of Health for prescribed physiotherapy services provided to patients.

The common shares issued were valued at $0.30 per share representing the closing share price on May 4, 2009, the date the purchase and sale agreement was executed.

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

5. Capital Management

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 and the stock option component of its shareholders' equity as well as its operating credit facilities (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 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 year ended December 31, 2010.

6. Related Party Transactions and Balances

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.

Related party transactions

Related party transactions, in addition to those described in note 12 with Company directors and management, have been entered into with Global Healthcare Investments and Solutions, Inc. ("GHIS") and entities controlled by the shareholders of GHIS who own 31,750,000 shares or approximately 51% of the issued and outstanding common shares of the Company as of December 31, 2010. Jamon Investments LLC ("Jamon") is an associated entity of Dr. Jack Shevel, the Company's Chairman. GHIS Capital Inc. ("GHIS Capital") is related to GHIS by common control.

A summary of the transactions with related parties for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
General and administrative expenses:		
Brenras	**$ -**	$ 360
GHIS	**874**	478
Interest payable to Jamon	**92**	-
Interest paid to GHIS Capital	**-**	21

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

6. Related Party Transactions and Balances - continued

During the year ended December 31, 2010, the Company incurred expenses payable to GHIS for its strategic advisory services pursuant to a consulting agreement with the Company. The GHIS consulting agreement provides that it receives fees based on up to 1.5% for completing financing, mergers and acquisitions, $20 per month as an advisory fee and 1% of the Company's weighted average market capitalization on an annual basis provided that the Company's market capitalization exceeds $20,000 in the period. In addition to the fees earned, travel and other administrative expenses incurred on behalf of the Company are reimbursed to GHIS and are included in the total general and administrative expenses disclosed above in the amount of $68 (2009 - $24).

The fees earned by GHIS for the years ended December 31, 2010 and 2009, according to the consulting arrangement with GHIS are as follows:

Fees earned in the year ended December 31,	**2010**	2009
Completion fees	**$ 137**	$ -
Advisory fees	**240**	220
Market capitalization fee	**429**	234
Total fees earned in the year	**$ 806**	$ 454

Included in accounts payable and accrued liabilities at December 31, 2010 and 2009, are $ 237 and $254, respectively, due to GHIS; and $92 and nil, respectively for interest payable to Jamon.

Related party loans

During the year ended December 31, 2010, the Company entered into the following loan agreements with Jamon and received proceeds totalling $10,000. The loans were granted pursuant to two promissory notes. One bears interest at 6% with a conversion feature of one share per one dollar of principal amount and is due November 9, 2013, and the other bears interest at 7% with no conversion feature and is due November 9, 2011. In addition to the promissory notes, Jamon was issued a warrant to purchase one million common shares of the Company at an exercise price of $1 each. The warrant expires on November 9, 2013. The fair values of the loans, conversion feature and warrant were recorded at inception as follows:

	At inception
Related party loans:	
Related party convertible loan at 6%	**$ 3,880**
Equity portion of related party convertible loan	**1,444**
Related party loan at 7%	**4,387**
Warrant	**289**
Total consideration	**$ 10,000**

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

6. Related Party Transactions and Balances - continued

Other

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.

7. Supplementary Disclosure of Cash Flow Information

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

	2010	2009
Accounts receivable	**$ (2,694)**	$ (700)
Accrued receivables	**(488)**	514
Inventory	**40**	-
Prepaid expenses	**(28)**	(56)
Accounts payable and accrued liabilities	**2,036**	727
Income taxes payable	**973**	24
	$ (161)	$ 509

(b) Other supplementary cash flow information:

	2010	2009
Income taxes paid	**$ 682**	$ 551
Interest paid	**$ 664**	$ 373
Non-cash investing and financing activities:		
Issuance of common shares on acquisition of Active Health	**$ -**	$ 1,000

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

8. Property and Equipment

At December 31, 2010

	Cost	Accumulated Amortization	Net Book Value
Office furniture, fixtures and equipment	**$ 739**	**$ 506**	**$ 233**
Work simulation and facility equipment	**1,268**	**1,268**	**-**
Computer equipment	**1,278**	**921**	**357**
Medical equipment	**506**	**403**	**103**
Physiotherapy equipment	**383**	**116**	**267**
Leasehold improvements	**529**	**40**	**489**
	$ 4,703	**$ 3,254**	**$ 1,449**

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

Amortization of property and equipment for the years ended December 31, 2010 and 2009 was $266 and $246, respectively.

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

9. Intangible Assets and Goodwill

	2010	2009
Indefinite-life intangible assets:		
Hospital license	**$ 1,147**	$ 1,147
Government billing privilege	**4,105**	4,105
Sleep Clinic license (note 4)	**268**	-
CCAC contract (note 4)	**414**	-
	5,934	5,252
Finite-life intangible assets:		
Software	**1,792**	1,500
Amortization of software	**(355)**	(125)
	1,437	1,375
Prescription files (note 4)	**2,200**	-
Total intangible assets	**9,571**	6,627
Goodwill	**19,029**	14,213
Total intangible assets and goodwill	**$ 28,600**	$ 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. No event, such as a change in use of the software, has occurred during fiscal 2010 that would indicate an impairment in value has occurred. The software is being amortized over its estimated useful life of seven years. As at December 31, 2010, accumulated amortization on software was $355 (December 31, 2009 - $125).

In the year ended December 31, 2010, the goodwill was adjusted for an accrual recorded on acquisition of Active Health which was $32 higher than what was ultimately paid.

The Community Care Access Centre (“CCAC”) contract acquired in the CAR acquisition has an indefinite useful life. The Company valued the CCAC contract based on the anticipated future cash flows from the contract which was higher than the available allocation amount of the purchase price.

The prescription files acquired in the purchase of the pharmacy assets have a useful life of approximately ten years and the value ascribed thereto was estimated based on the anticipated cash flows from future business generated from repeat customers.

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

10. Income Taxes

The total provision for income taxes varies from the amounts that would be computed by applying the statutory income tax rate of approximately 31% (33% for 2009) to income before income taxes as follows:

		2010		2009
Income before income taxes	**$**	**6,256**	$	2,537
Expected income tax expense based on statutory tax rate	**$**	**1,939**	$	837
Increase resulting from:				
Non-deductible expense for stock-based compensation		**181**		46
Other non-deductible items		**101**		7
Decrease resulting from:				
Scientific research and experimental development claims		**(158)**		–
Losses carried forward		**(93)**		–
Effect of future tax rate reduction		**(41)**		7
Provision for income taxes	**$**	**1,929**	$	897
Current	**$**	**1,559**	$	574
Future	**$**	**369**	$	323

The components of future income tax (liabilities) assets are as follows:

		2010		2009
Capital assets	**$**	**(227)**	$	(200)
Eligible capital expenditures		**(883)**		(319)
Acquired intangible assets		**(155)**		–
Non-capital losses carried forward		**401**		24
Financing costs		**(29)**		(19)
Accrued liabilities deductible when paid		**146**		230
Net future tax liabilities	**$**	**(747)**	$	(284)
Current future income tax liabilities	**$**	**–**	$	(19)
Non-current future income tax liabilities	**$**	**(747)**	$	(265)

11. Long-term Debt

Revolving facility

The Company modified its financing agreement with its bank during the year ended December 31, 2010. The renegotiated financing modified the term loan and operating credit facility to a revolving facility for $20,000. The advances accrue interest at a rate of prime plus 2% to be paid monthly in arrears. All of the assets of the Company have been pledged as collateral for this loan. The term of the revolving facility is twenty-four months.

The revolving facility 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 income statements over time. At December 31, 2010, unamortized loan arrangement costs in the amount of $456 were reflected in the revolving facility balance.

The Company is in compliance with the financial covenants of its revolving facility as at December 31, 2010.

Long-term loan

The Company's long-term loan was modified to the revolving facility as described above. 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 was repayable over a five-year period, with quarterly principal payments of $550. Interest on the loan was payable monthly. The annual rate of interest was 5.65% fixed by an interest swap over the term of the loan. The floating rate of the loan was prime plus 3.25%. During the year ended December 31, 2010, $1,650 in principal was repaid.

During the year ended December 31, 2010, the Company used derivative financial instruments to manage current and future risks related to interest rate fluctuations associated with its long-term loan. The interest rate swap involved an exchange of interest payments without an exchange of principal underlying the interest payments, and was 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 was recorded in other comprehensive income.

Related party convertible loan

Long-term debt at December 31, 2010 also includes the debt component of the related party convertible loan in the amount of $3,904 as described in more detail in Note 6.

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

11. Long-term Debt - continued

Interest expense

Interest expense comprises the following:

	2010	2009
Interest expense on long-term loan and revolving facility	**$ 572**	$ 362
Amortization of loan arrangement costs	**278**	71
Interest on convertible loan	**92**	–
Accretion of related party loans	**71**	–
Interest income	**(42)**	–
	$ 971	$ 433

The interest rate swap was extinguished on December 6, 2010 as it was no longer required to manage the interest rate risk associated with the repaid long-term loan. As at the date the swap was extinguished, the fair value of the swap was approximately $128 in favour of the counterparty. The Company paid the unwind cost of $128 to the counterparty to extinguish the liability. The amount accumulated in other comprehensive income will be amortized over the remaining term of the modified revolving facility.

12. Shareholders' Equity and Earnings per Share

Common shares

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

	Number of Shares	Amount
Issued and outstanding, December 31, 2008	36,581,762	$ 3,928
Shares issued in private placement	20,500,000	3,753
Shares issued pursuant to the acquisition	3,333,333	1,000
Shares issued upon exercise of options	600,000	240
Issued and outstanding, December 31, 2009	61,015,095	$ 8,921
Shares issued as compensation (CEO compensation)	100,000	-
Shares issued upon exercise of options	975,000	319
Issued and outstanding, December 31, 2010	**62,090,095**	**$ 9,240**

CEO compensation plan

On December 30, 2010, the Company issued 100,000 shares as part of the employment commitment to the newly appointed CEO of the Company. These shares, with a fair value of $90, will be expensed to earnings over the six-month vesting period. The Company has also committed to issuing an additional 1,100,000 restricted common shares, over the next three years conditional upon continued employment. The value of these restricted shares, based on the

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

12. Shareholders' Equity and Earnings per Share - continued

market value of the shares on the grant date of $990, will be recognized as compensation expense on a graded vesting basis over the vesting period.

Issuance of stock options and deferred stock-based compensation

On May 31, 2010, the Company granted 350,000 stock options to three senior management employees to purchase an equivalent number of common shares at an exercise price of $0.67 per share to be vested at the rate of 25% per annum over a four-year period.

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.

On October 19, 2010, the Company granted 550,000 stock options to five senior level staff 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.

On December 30, 2010, the Company granted 1,400,000 stock options to the newly appointed CEO of the Company to purchase an equivalent number of common shares at an exercise price of $0.90 per share to be vested at the rate of 25% per annum over a four-year period.

During the year ended December 31, 2010, 450,000 unvested stock options were forfeited through termination or resignation of option holders from employment with the Company.

The value assigned to options, granted in the year ended December 31, 2010, of $1,153, was calculated using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	67% - 138%
Risk-free interest rate	1.28% - 2.48%
Expected option term	5 years

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

12. Shareholders' Equity and Earnings per Share - continued

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

	Year ended December 31, 2010	2009
Balance, beginning of year	**$ 1,752**	$ 133
Options granted in the year as deferred compensation	**1,153**	1,759
Options forfeited in the year	**(370)**	-
Expensed in the year	**(493)**	(140)
Balance, end of year	**$ 2,042**	$ 1,752

The outstanding and exercisable stock options are as follows:

	2010		2009	
Common share options	**Options**	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of year	**5,075,000**	**$ 0.58**	3,050,000	$ 0.28
Options granted	**2,450,000**	**0.82**	2,725,000	0.83
Options exercised	**(975,000)**	**0.21**	(600,000)	0.26
Options cancelled	**(450,000)**	**1.03**	(100,000)	0.34
Balance, end of year	**6,100,000**	**$ 0.70**	5,075,000	$ 0.58
Exercisable, end of year	**1,597,917**	**$ 0.53**	1,593,750	$ 0.26

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding as at December 31, 2010 are as follows:

Options Outstanding				**Options Exercisable**	
Range of Exercise Price	**Number Outstanding**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (years)**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.20 - $0.30	925,000	$0.25	2.1	587,500	$0.24
$0.31 - $0.40	775,000	$0.37	3.4	197,917	$0.38
$0.41 - $0.50	500,000	$0.50	1.5	375,000	$0.50
$0.65 - $0.75	1,050,000	$0.70	4.6	-	N/A
$0.90 - $0.99	1,400,000	$0.90	5.0	-	N/A
$1.00 - $1.10	1,450,000	$1.03	3.9	437,500	$1.03
Total	6,100,000	$0.70	3.8	1,597,917	$0.53

12. Shareholders' Equity and Earnings per Share - continued

Issuance of Warrants

On November 9, 2010, the Company issued a warrant to Jamon to purchase 1,000,000 common shares for $1 each for a period of three years. The warrant was valued in conjunction with the convertible loan to Jamon at its fair value of $289.

On May 29, 2009, the Company completed a private placement of 20,500,000 common shares and an equal number of warrants to GHIS for total consideration of $6,765. Each warrant entitles the holder to acquire one common share for a period of five years, at a price of $0.33 per share. The fair value of the warrants was determined to be $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	$0.205
Adjusted value of warrant	$0.145

The consideration received was allocated between the warrants and shares based on the respective fair values of the shares and warrants.

Earnings per share

Earnings per share for the year ended December 31, 2010 and 2009 has 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. The effect of the assumed conversion of the related party convertible loan would not have been dilutive.

The following table illustrates the dilutive effect of the outstanding options and warrants for the year ended December 31, 2010 and 2009:

(amounts in thousands)	**2010**	2009
Basic weighted average shares outstanding	**61,176**	50,936
Dilutive effect of options	**1,346**	1,786
Dilutive effect of warrants	**10,174**	13,184
Diluted shares outstanding	**72,696**	65,906

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

13. Accumulated Other Comprehensive Loss

Accumulated other comprehensive 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. The interest rate swap was settled on December 6, 2010, as the Company no longer considered the interest rate swap to be necessary following the modification to the long-term debt facility. Unrealized gains and losses that have accumulated in the AOCI will be amortized into income over the remaining term of the revolving facility. Changes in the components of AOCI are as follows:

	2010	2009
AOCI at beginning of year	**$ (121)**	$ –
OCI for the year due to fair value of interest rate swap	**(7)**	**(121)**
AOCI at end of year	**$ (128)**	$ **(121)**

14. Financial Instruments

During the year ended December 31, 2010, the Company's financial instruments consist of cash, accounts receivable, accrued receivables, deposit, loan receivable, accounts payable and accrued liabilities, income taxes payable, its revolving facility, related party loan, and related party convertible loan and, in the comparative period, a cash-flow hedge on its long-term debt.

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. The Company does not have any financial instruments in this level.

- *Level 3: Inputs for assets or liabilities that are not based on observable market data.*
  The Company does not have any financial instruments in this level.

Due to their short-term maturities, the fair value of financial instruments approximates their carrying value.

Financial instruments carried at fair value:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	9,210	-	-	9,210

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

14. Financial Instruments – continued

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:

	December 31, 2010	December 31, 2009
	Carrying value	Carrying value
Accounts receivable	**$ 10,588**	$ 7,500
Accrued receivables	**1,420**	932
Deposit	**1,266**	–
Loan receivable	**1,714**	–
Total financial assets	**$ 14,988**	$ 8,432
Accounts payable and accrued liabilities	**$ 8,251**	$ 5,967
Income taxes payable	**1,032**	90
Long-term loan	**–**	9,269
Revolving facility	**14,531**	–
Related party loan	**4,434**	–
Related party convertible loan	**3,904**	–
Total financial liabilities	**$ 32,152**	$ 15,326

Credit Risk

The Company is exposed to credit risk to the extent that its clients become unable to meet their payment obligations. The Company's exposure to concentrations of credit risk is limited. Accounts receivable and accrued receivables are from the Workplace Safety and Insurance Board, government agencies, employers and insurance companies. Historically, the Company has experienced minimal bad debt expense.

Accounts receivable aging was as follows:

	December 31, 2010	December 31, 2009
0 – 30 days	**6,691**	5,087
31 – 60 days	**2,080**	1,786
61 – 90 days	**493**	314
Over 90 days	**1,324**	313
Total	**$ 10,588**	$ 7,500

The substantial increase in the over 90 day category is primarily due to the three large, credit-worthy customers. While payments have been outside normal payment terms, management does not believe there to be any collection issue with these amounts.

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

14. Financial Instruments – continued

The Company derived approximately 45% (2009 – 35%) of its revenues for the year ended December 31, 2010 from billings through its government billing privilege and as such is subject to concentration risk associated with its reliance on such billings.

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

Management forecasts cash flows for its current and subsequent fiscal years to project future financial requirements. The Company manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Note 5. The Company is subject to certain financial covenants under its revolving facility and has met all those conditions.
The following table presents the contractual terms to maturity of the financial liabilities owned by the Company:

As at December 31, 2010

	Total	1 year	1-3 years	4-5 years	Thereafter
Accounts payable and accrued liabilities	$ 8,251	$ 8,251	$ -	$ -	$ -
Income taxes payable	1,032	1,032	-	-	-
Revolving facility	14,531	-	14,531	-	-
Related party loan	4,434	4,434	-	-	-
Related party convertible loan	3,904	-	3,904	-	-
Operating leases	3,957	1,415	2,139	360	43
Total	**$ 36,109**	**$ 15,132**	**$ 20,574**	**$ 360**	**$ 43**

As at December 31, 2009

	Total	1 year	1-3 years	4-5 years	Thereafter
Accounts payable and accrued liabilities	$ 6,088	$ 6,088	$ -	$ -	$ -
Income taxes payable	90	90	-	-	-
Long-term loan	9,268	2,200	7,068	-	-
Operating leases	4,445	1,407	2,964	74	-
Total	$ 19,891	$ 9,785	$ 10,032	$ 74	$ -

The Company anticipates that it will generate sufficient cash flow from operations over the next year to meet the repayment of its 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 is exposed to interest rate risk through its floating rate revolving facility, whose interest rate is based on prime, and its cash balances. As at December 31, 2010, a 1% change in the variable interest rates on the average balances for the year would have resulted in an annualized change in interest expense of approximately $16.

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

14. Financial Instruments – continued

Currency Risk

Virtually all of the Company's transactions are denominated in Canadian dollars. At December 31, 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 three reportable operating segments referred to as (i) Rehabilitation, Assessment, Eldercare and Home Care ("Rehabilitation"), (ii) Surgical Centre and (iii) Pharmacy. 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 Centre 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 Pharmacy segment includes the business of Centric Pharmacy Inc. 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 year ended December 31, 2010

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centre	Pharmacy	Corporate	Total
Revenue	$ 59,884	$ 1,394	$ 1,204	$ -	$ 62,482
Amortization	$ 465	$ 18	$ 5	$ 8	$ 496
Interest	$ -	$ -	$ -	$ 971	$ 971
Income (loss) before interest and income taxes	$ 9,790	$ (11)	$ 32	$ (2,584)	$ 7,227
Capital expenditures	$ 495	$ 155	$ 39	$ 118	$ 807
Goodwill	$ 14,181	$ -	$ 4,848	$ -	$ 19,029
Total assets	$ 33,296	$ 2,048	$ 7,883	$ 12,317	$ 55,544

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

15. Segmented Reporting - continued

As at and for the year ended December 31, 2009

	Rehabilitation, Assessment, Eldercare and Home Care	Surgical Centre	Corporate	Total
Revenue	$ 35,275	$ 1,348	$ -	$ 36,623
Amortization	$ 281	$ 7	$ 83	$ 371
Interest	$ -	$ -	$ 433	$ 433
Income (loss) before interest and income taxes	$ 7,133	$ -	$ (4,163)	$ 2,970
Capital expenditures	$ 561	$ 20	$ -	$ 581
Goodwill	$ 14,166	$ 47	$ -	$ 14,213
Total assets	$ 29,990	$ 1,447	$ 208	$ 31,645

16. Commitments

Future minimum annual lease payments under operating leases for premises and equipment are as follows:

	Premises	Equipment	**Total**
2011	$ 1,375	$ 40	**$ 1,415**
2012	1,191	27	**1,218**
2013	896	25	**921**
2014	299	3	**302**
2015	58	-	**58**
Thereafter	43	-	**43**
Total	$ 3,862	$ 95	**$ 3,957**

17. Contingencies

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, when settled are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

18. Subsequent Events

The following events occurred subsequent to December 31, 2010:

i. On January 19, 2011, the Company acquired 100% of the shares of Surgical Spaces Inc. ("SSI"). SSI operates two surgical facilities in Vancouver and Winnipeg, including a full service medical clinic providing diagnostic testing, specialty medical consulting, family practice and urgent care to its patients. On closing, the Company paid $8,150 in cash from the cash on hand at December 31, 2010. Based on SSI achieving certain financial targets in 2011, additional purchase consideration of up to 11.8 million shares of the Company will be released from escrow.

ii. On March 3, 2011, the Company announced that it completed its previously announced private placement of 17,940,000 shares at a price of $1.20 per share for gross proceeds of $21,528. This included 2,340,000 shares issued pursuant to the exercise of an over-allotment option granted to the underwriters representing proceeds of $2,808. In addition, the underwriters received 538,200 warrants to purchase an equivalent number of shares at an exercise price of $1.27 and which are exercisable for a period of two years.

iii. The deposit included in current assets at December 31, 2010, was a returnable deposit to secure exclusive negotiation rights to purchase assets of a pharmacy business. Those negotiations terminated without any assets being purchased, and the full deposit was returned to the Company, prior to the date of completion of these financial statements.