Centric Health

Your Care. Our Focus.

Management's Discussion and Analysis
For the years ended December 31, 2012 and 2011

Dated: March 28, 2013

Index

Management's Discussion and Analysis

For the years ended December 31, 2012 and 2011

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 2013 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 income and comprehensive income of Centric Health Corporation, ("Centric Health" or "Company") for the years ended December 31, 2012 and 2011 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 on conjunction with the consolidated financial statements and notes thereto for the years ended December 31, 2012 and 2011. The consolidated financial statements for the years ended December 31, 2012 and 2011 are prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's significant accounting policies are summarized in detail in note 1 of the consolidated financial statements for the years ended December 31, 2012 and 2011. Unless otherwise specified, amounts reported in this MD&A are in thousands, except shares and per share amounts and percentages. The following MD&A is presented as of March 28, 2013. All amounts are disclosed in Canadian dollars. Additional information about the Company, including the most recently filed Annual Information Form, is available on www.sedar.com.

Highlights for Year ended December 31, 2012

Financial Performance

Following the completion of several acquisitions over the past two years coupled with organic growth, the Company's revenue has increased by 117.2% to $436.7 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011. In addition, Adjusted EBITDA[1] increased to $42.8 million for the year ended December 31, 2012, as compared to $21.4 million for year ended December 31, 2011 due to acquisitions, cost efficiency initiatives and organic growth. The Company focused on cash management during the year ended December 31, 2012, which resulted in the Company generating $15.3 million in positive cash flow from operations during the year as compared to $7.6 million in the prior year.

Acquisitions, Integration and Growth

On February 13, 2012, the Company completed the acquisition of Motion Specialties Inc. ("Motion Specialties") which expanded the Company's national presence in the retail and home medical equipment sector. From the date of acquisition to December 31, 2012, Motion Specialties was accretive by $6.4 million in Adjusted EBITDA to the Company's 2012 results. In addition, in the fourth quarter of 2012, the Company grew its operations in the retail and home medical equipment segment through the acquisition of MEDIchair franchise stores in British Columbia and Alberta. The Company further expanded its national physiotherapy footprint by completing the acquisition of five physiotherapy businesses during the first quarter of 2012.

The Company finalized the earn out of LifeMark Health Partnership (“LifeMark”) with the release of 6,875,000 of escrowed shares to the LifeMark vendors based on the formula specified in the purchase agreement for this transaction. The remaining 40,000,000 LifeMark escrowed shares were cancelled. The Company also issued escrowed shares to the vendors of Surgical Spaces Inc. ("SSI") and Community Advantage Rehabilitation ("CAR") in 2012.

Following a period of active mergers and acquisitions in 2011 and into the first quarter of 2012, the Company continued its focus on cost containment with further integration, rationalization, renegotiation of supplier contracts and the closure and rationalization of certain assessment locations. Some of the benefits of these initiatives can be seen through the improvement in corporate office expenses as a percentage of revenue from 5.6% in 2011 to 3.7% in 2012. In addition, the Company has launched multiple top line initiatives with the goal of extracting synergies and expanding operations throughout the Company.

Financing

The Company was active in raising funds in 2012 as it completed three separate financings. In September and October 2012, the Company completed a public offering of $27.5 million of subordinated, unsecured convertible notes. The proceeds from the public offering were used to pay down the Company's senior bank debt and provides the Company with capacity to fund future acquisitions. On May 8, 2012, the Company completed a private placement of $15.0 million of subordinated, unsecured convertible notes. The proceeds from this private placement were used to pay down the Company's senior debt. In February 2012, the Company completed the second closing of an innovative prospectus supplement focusing on staff and healthcare professionals, raising gross proceeds of $13.6 million from the first and second closings of this offering from approximately 180 participants.

The Company renegotiated its agreements with its senior lending syndicate in May 2012, December 2012 and March 2013. These amended agreements revised certain of the Company's financial performance covenants to provide the Company with greater financing flexibility. The Company was in compliance with its financial performance covenants at December 31, 2012.

People

The Company added senior management with significant industry experience through the appointment of David Cutler as President, Chief Executive Officer and a member of the Board of Directors effective September 3, 2012, Daniel Gagnon as Chief Financial Officer, effective February 13, 2013, Chris Dennis as Chief Operating Officer and Jim Black as Chief Information Officer, both effective April 8, 2013. The Company also strengthened its Board of Directors with the appointment Yazdi Bharucha as an independent director and Chair of the Company's audit committee effective February 22, 2013.

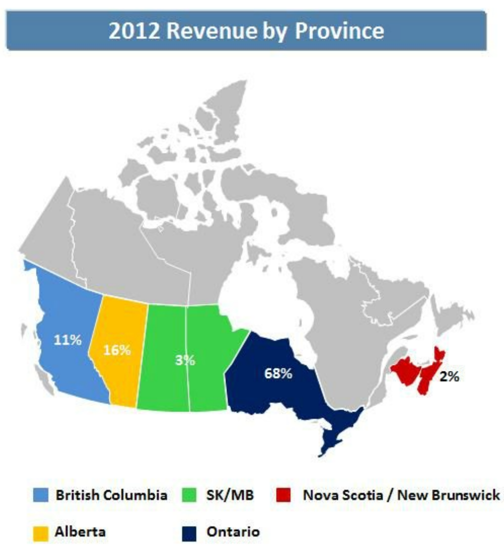
[1] Defined and calculated in Reconciliation of Non-IFRS Measures

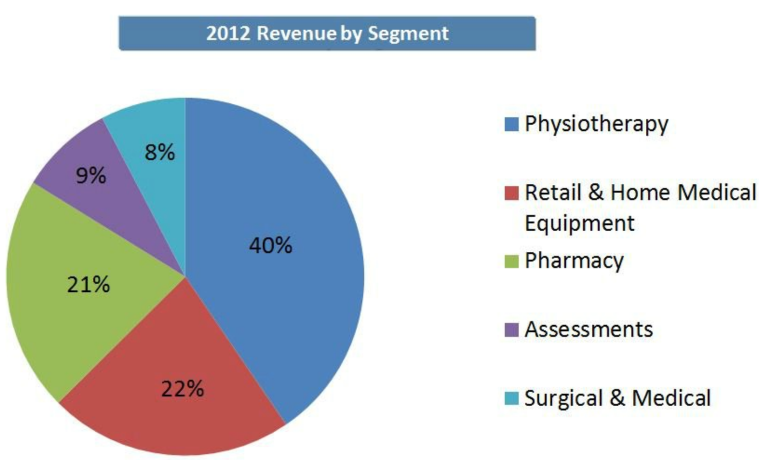
Business Overview

Centric Health Corporation is a Canadian healthcare products and services company with the largest healthcare services platform and networks across Canada in physiotherapy, assessments, seniors' wellness, surgical and medical centres, specialty pharma, orthotics and home medical equipment. The Company reaches approximately 1,000 locations across Canada and has 19 surgical operating rooms and provides services to over 60,000 long-term care and retirement home beds through its more than 3,600 healthcare professionals, staff and consultants.

Business Strategy

Centric Health is pursuing a strategy of expansion and growth to establish a national network which focuses on services to seniors, corporate health plans and surgical and medical centres. The Company aims to achieve this objective through mergers, accretive acquisitions and organic growth opportunities Centric Health's acquisitions are targeted towards entrepreneurial companies with a successful track record and intellectual property. The Company's expansion and diversification is primarily focused on healthcare sectors that not only demonstrate compelling growth prospects in and of themselves, but also present synergies, rationalization and cross-selling benefits at all of its sites in creating meaningful stakeholder value with an overarching **focus on quality care to our patients**. This diversified strategy across seven provinces with multiple business units aims to mitigate the various business risks associated with healthcare companies and provide a meaningful platform for sustainable growth. The Company's revenues earned for the year ended December 31, 2012 by province and segment are denoted below.



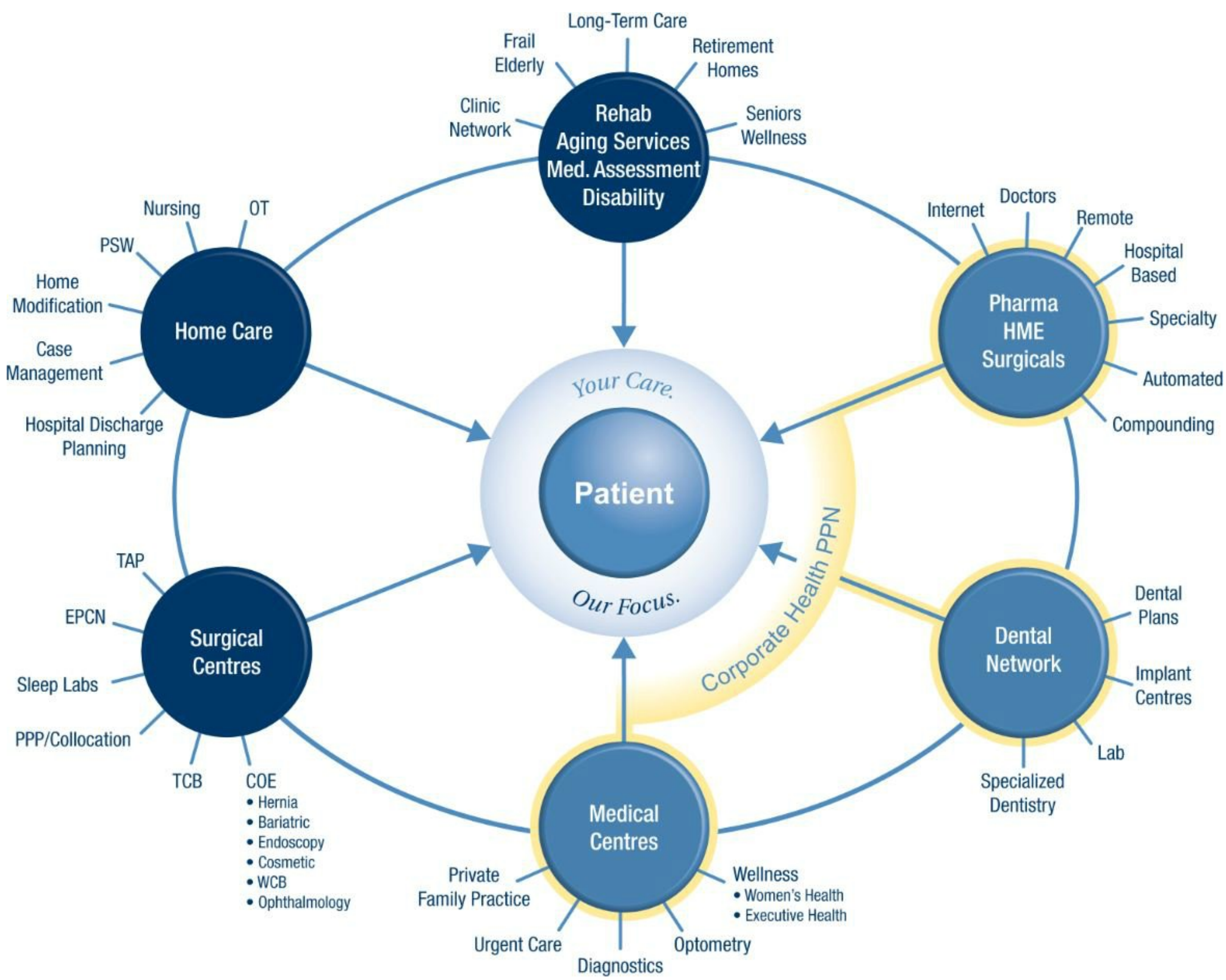


Centric Health has a strategic focus to differentiate its services and product offerings by partnering with healthcare professionals and employees to achieve clinical excellence with a focus on the highest standards of care. Centric Health's long-term objective is that management, staff and healthcare professionals will own between 30% to 40% of the Company. This will allow Centric Health to offer patients a comprehensive and personalized unique brand of care.

It is expected that organic growth, top line initiatives as well as rationalization opportunities resulting in reduced corporate and operating costs will be realized in future quarters. The Company has assembled a strong new senior management team that is focused on harnessing the earnings potential of the Company's platform. Many of the efforts of this new management team are not expected to be realized until the second half of 2013. The Company has realized efficiencies through consolidation of premises and facilitating centralization of support services and staff. These initiatives will continue in the coming quarters through IT systems integrations, centralized purchasing and standardization of various transaction streams in the operations of the businesses. The Company will only pursue acquisitions if they will complement and enhance the Company's existing core operations.

The Company's strategy for a diversified portfolio of healthcare operations is illustrated through the diagram below.

Diversified Healthcare Portfolio Strategy

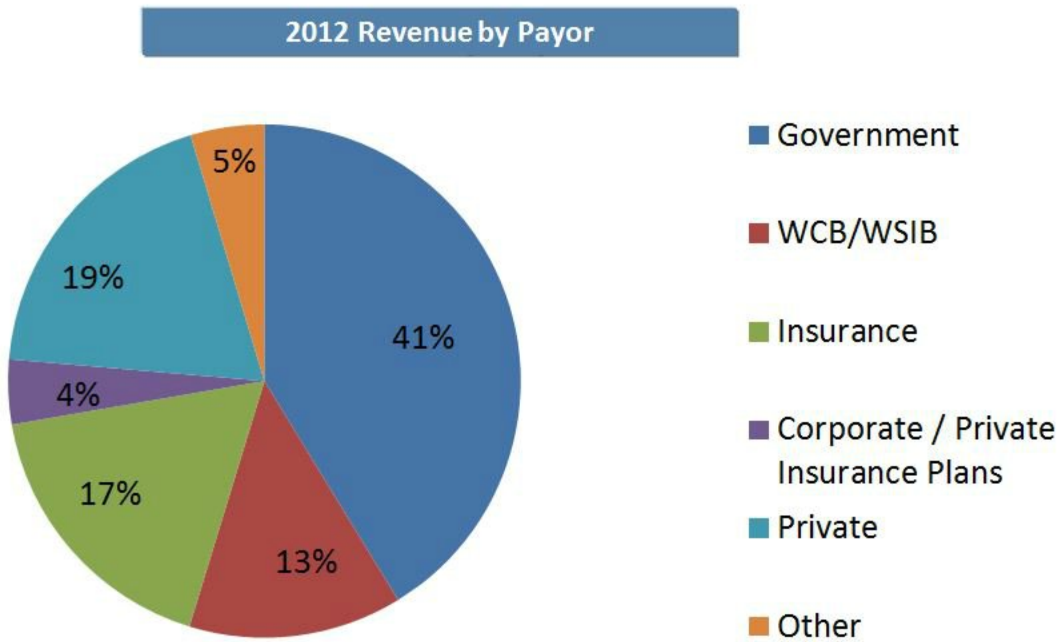


The Company's primary focus areas and target markets are as follows:

Primary Focus Area	Revenue Source
Seniors Services	Government
Corporate Health Plans	Insurers
Surgical and Medical Centres	Government, Insurance and Private Pay

These areas of focus represent a large portion of Canada's independently provided healthcare spend which are underpinned by secure and diverse revenue streams with strong growth prospects.

The diversification of the Company's revenue streams is evidenced in the graph below.



Accreditation

The Company is fully committed to patient care and quality outcomes. A major component of the Company's commitment to quality is its voluntary participation in the Accreditation Programs offered by the Commission on Accreditation of Rehabilitation Facilities ("CARF") and the Canadian Physiotherapy Association ("CPA").

Accreditation is an extensive external review process, which involves evaluating the Company's level of conformance to rigorous standards in the areas of leadership, ethics, safety, human resource management, business practices, patient care and measurement of the results of the Company's care and service.

The Company's physiotherapy clinics across Canada maintain a Four - Year Accreditation with Commendation with the CPA. This means that the Company has achieved 100% substantial compliance for all standards with a strong indication that many of the criteria have been exceeded. There is clear evidence of a strong organization-wide commitment to continuous quality improvement and client-centred care. In addition, information, financial records and the rights of clients and personnel are safeguarded.

The Company's seniors' wellness operations, the Company's interdisciplinary centres in BC, Alberta and Nova Scotia as well as the Company's physiotherapy clinics in Ontario, New Brunswick and Nova Scotia also maintain a Three -Year Accreditation with the CARF.

CARF-accredited programs and services have demonstrated that they substantially meet internationally recognized standards. The Company believes that the accreditation seal of achievement assures customers that the Company meets or exceeds independent, nationally and internationally recognized standards for excellence in business practices and clinical service.

The Company's surgical centres are fully accredited with the provincial colleges of physicians and surgeons where required. Where not required, the Company completes voluntary certification programs. Infection control is a key aspect of hospital certifications. The Company places an emphasis on exceeding quality standards and focusing on the highest levels of patient care and outcomes. The ability to operate surgical facilities requires provincial licencing which is not always readily available.

Business Outlook

Over the past two years, Centric Health has undertaken an aggressive growth strategy through acquisitions and strategic initiatives which has resulted in the Company establishing an integrated national healthcare company with a platform for growth which is unparalleled in Canada. Centric Health is well positioned to assist with Canada's ever expanding healthcare needs. As the Centric Health progresses in 2013 under the direction of new President and CEO David Cutler, new CFO, Daniel Gagnon. new COO, Chris Dennis and new CIO Jim Black, the Company plans on furthering its emphasis on the integration of its various past acquisitions and affecting further results from the Company's organic growth initiatives. The addition of Mr. Cutler, Mr. Gagnon, Mr. Dennis and Mr. Black bring to the Company significant experience in the healthcare industry and a track record of success. Under the leadership of Mr. Cutler, the Company has developed a company-wide mission statement and is working towards further integration of past acquisitions. Centric Health's new leadership team is focused on optimizing and growing results from the Company's existing platform. Projects aimed at the advancement and implementation of growth initiatives, the effective use of technology to enhance business integration, management of working capital and cost saving initiatives have been launched since Mr. Cutler joined the organization in September 2012. Many of the Company's growth initiatives have a longer sales cycle and the benefits are not expected to be realized until the second half of 2013.

In addition, the new executive team is focused on strengthening the Company's balance sheet by reducing the Company's senior debt and total debt leverage ratios over the medium term. The Company anticipates that, based on meeting its 2013 operating budget, it will generate sufficient cash flow from operations in 2013 to meet its obligations as they come due. However, based on existing cash flow, overall debt levels and the need to focus on operational performance improvements, the Company is considering alternative lending arrangements to replace the existing Term Loan and Revolving Facility. While alternative arrangements may come at a higher interest cost, their terms would likely provide greater financial flexibility with less onerous financial performance covenants.

While the Company continues to seek out strategic acquisitions that will bolster its existing national platform, its main focus in 2013 will be to grow its existing businesses. Many organic growth initiatives were commenced in 2012 which tend to have a long sales cycle and as such, the Company does not expect to begin to realize the benefits of these initiatives until the second half of 2013 beyond. Cross-selling initiatives include bundled service contracts which leverages the Company's platform to offer bundled services of physiotherapy, pharmacy and home medical equipment services to long-term care and retirement homes. The Company signed new bundled services contracts in the fourth quarter of 2012 and further contracts are expected to be signed in 2013. Other cross-selling initiatives include expanding orthotic sales in physiotherapy clinics, Motion Specialties and MEDIchair stores; and promoting rehabilitative services to surgical patients to expedite recovery.

In addition to growth initiatives, the Company continues to focus on improving its operating margins through right-sizing activities and operational efficiency projects. In 2012, the Company initiated successful projects for working capital management, the centralization of operational support services and consolidated purchasing within its pharmacy operations. In addition, decisive action was taken to reduce the workforce in the assessment operations in order to respond to past regulatory changes. As the Company looks forward to 2013, it plans to further consolidate purchasing initiatives to its surgical and retail and home medical equipment operations and to undertake systems integration initiatives specifically aimed at its retail and home medical equipment operations.

Physiotherapy

The Company continues to focus on growth in the physiotherapy segment through organic initiatives. Growth through the acquisition of additional physiotherapy clinics will only occur if the acquisition will be accretive to income and complementary to the Company's national network. A retail initiative has commenced within its physiotherapy clinics which should further grow the revenue and income of these operations. In 2012, the Company also launched a massage therapy membership plan at five physiotherapy clinics in four provinces with these services now available in over 70 physiotherapy clinics. In addition, the Company is looking to further expand its preferred provider relationships with employers and other organizations. The Company is also seeking to expand the number of beds serviced in retirement and long-term care homes through the Company's bundled services initiatives. The Company is also seeking to evolve to meet the priorities of the Ontario Ministry of Health, especially given planned regulatory reforms in the spring of 2013.

Pharmacy

Revenues and EBITDA for the Company's pharmacy operations are expected to further increase in 2013 due to organic growth through tenders for contracts, retail initiatives, bundled service offerings and maximizing the utilization of existing infrastructure. The Company's pharmacies are all currently located in Ontario and expansion of its pharmacy operations into other provinces is part of the Company's longer-term strategy. In 2013, plans for the pharmacy segment include expanding products and services to retirement and long-term care residents through the acquisition of Class Med in October 2012. In addition, the Company expects to realize the benefits from the regulatory changes announced in the fall of 2012 by the Ontario government which expanded the scope of practice for pharmacists.

Retail and Home Medical Equipment

The Company's retail and home medical equipment operations are expected to continue their growth in 2013. The Company is continuing to integrate Motion Specialties, including system upgrades which will further enhance the information available to the Company for decision making. The acquisition of Motion Specialties has not only expanded the Company's retail footprint in Canada, it has also provided exciting synergy opportunities with the Company's existing MEDIchair operations including a common management team. The Company's retail and home medical equipment operations are also key stakeholders in bundled service offerings to retirement and long-term care homes. Motion Specialties continues to expand its respiratory sales and its "Drivers in Motion" program which are expected to further enhance this segment's Adjusted EBITDA in 2013. The Company has also completed strategic acquisitions of certain existing MEDIchair franchisees to enhance the Company's corporate store footprint and will pursue further acquisitions where appropriate.

Assessments

The Company made senior management changes in the assessments operations in 2013 in order to provide fresh leadership in order to stabilize and grow this business. While revenues in the assessments segment continues to be adversely affected by legislative changes surrounding automobile insurance coverage, substantial efforts were made in 2012 to reduce fixed costs and “right size” the business. The Company has consolidated its operations in Ontario into fewer assessment centres in order to reduce excess overhead costs. The Company is looking to increase its market share in this segment in order to achieve greater economies of scale. Growth initiatives for assessments in 2013 include increased brand awareness in the industry, enhanced bookings through technology and providing insurers and adjusters with "report cards" to assist in tracking outcomes.

Surgical and Medical

The financial results of the surgical and medical operations of the Company declined in the second half of 2012 due to reduced surgical days due to closures for vacations and renovations, and due to certain leadership changes in this segment. The Company's Sarnia operations have performed well below expectations since its acquisition which caused the Company to change the leadership in Sarnia in the fourth quarter of 2012. This leadership change included the departure of the primary surgeon for this location. The Company believes that the prospects for the Sarnia surgical centre are strong going forward however the Company will need to spend 2013 building this business and that the full financial benefits of the leadership changes at the Sarnia location will not be realized until 2014. The Company is currently looking to expand its roster of physicians at its False Creek and Sarnia locations in order to utilize excess operating room capacity. The Company also has initiated a search for an overall lead for the surgical division with a track record of success in the surgical field. The Company is pursuing innovative strategies which included the launch of the Company's first Surgical Centre of Excellence in October 2012 in orthopedic surgery. The Company expects to launch further specialized surgical centres of excellence in 2013 which will partner Centric Health with some of Canada's leading surgeons. The Company also has long-term initiatives to launch triage assessment programs, new treatment technologies, an extended patient choice network and transitional care maternity beds.

$000's (except for per share amounts)

Selected Financial Information

The following selected financial information for the years ended December 31, 2012 and 2011, has been derived from the consolidated financial statements for the years ended December 31, 2012 and 2011, and should be read in conjunction with those financial statements and related notes. The results of acquisitions made in the current year are added from their respective dates of completion. Non-IFRS measures are defined and reconciled in the section immediately following the selected financial information.

	For the years ended December 31,		
	2012 **$**	**2011** **$**	**2010** **$**
Revenue	**436,651**	200,992	62,482
(Loss) income from operations	**(9,269)**	(4,532)	7,442
% of revenue	**(2.1)%**	(2.3)%	11.9%
Income before interest expense and income taxes	**16,421**	1,349	5,228
EBITDA[2]	**52,204**	15,897	5,779
Adjusted EBITDA[2]	**42,832**	21,360	7,990
Per share - Basic	**$0.38**	$0.26	$0.13
Per share - Diluted	**$0.28**	$0.21	$0.11
Adjusted EBITDA Margin	**9.8%**	10.6%	12.8%
Net (loss) income	**(7,088)**	(8,978)	2,262
Per share - Basic	**$(0.06)**	$(0.11)	$0.04
Per share - Diluted	**$(0.06)**	$(0.11)	$0.03
Cash flow from operations	**15,314**	7,598	5,313
Total assets	**485,987**	436,691	54,907
Total non-current liabilities	**92,062**	287,549	14,432

[2] Defined in Reconciliation of Non-IFRS Measures

Reconciliation of Non-IFRS Measures

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

EBITDA, Adjusted EBITDA, Adjusted EBITDA % and Adjusted EBITDA per share

The Company defines EBITDA as earnings before depreciation and amortization, interest expense, amortization of lease incentives, and income tax (recovery) expense. Adjusted EBITDA is defined as EBITDA before transaction and restructuring costs, changes in the fair value of the contingent consideration liability, impairments, change in fair value of derivative financial instruments, loss on disposal of property and equipment and stock based compensation expense. Adjusted EBITDA % is defined as Adjusted EBITDA divided by revenue. Adjusted EBITDA per share is defined as Adjusted EBITDA divided by the weighted outstanding shares on both a basic and diluted basis. The Company believes that Adjusted EBITDA is a meaningful financial metric as it assists in the ability to measure cash generated from operations. EBITDA and Adjusted EBITDA are not recognized measures under IFRS.

$000's (except for per share amounts)

	For the three month periods ended December 31,		For the years ended December 31,	
	2012	2011	**2012**	2011
	$	$	**$**	$
Net loss	**(38,530)**	(67,484)	**(7,088)**	(8,978)
Depreciation and amortization	**16,326**	12,268	**35,441**	14,573
Interest expense	**6,562**	4,756	**24,350**	12,245
Amortization of lease incentives	**111**	—	**342**	(25)
Income tax expense (recovery)	**443**	(3,539)	**(841)**	(1,918)
EBITDA	**(15,088)**	(53,999)	**52,204**	15,897
Transaction and restructuring costs	**2,780**	3,627	**11,422**	8,181
Change in fair value of contingent consideration liability	**(5,893)**	2,562	**(51,164)**	(60,078)
Impairments	**27,421**	52,801	**27,421**	52,801
Stock-based compensation expense	**1,512**	1,369	**4,464**	3,163
Change in fair value of derivative financial instruments	**(1,529)**	(89)	**(1,947)**	1,396
Loss on disposal of property and equipment	**388**	—	**432**	—
Adjusted EBITDA	**9,591**	6,271	**42,832**	21,360
Basic weighted average number of shares	**121,338**	90,691	**114,140**	80,656
Adjusted EBITDA per share (basic)	**$0.08**	$0.07	**$0.38**	$0.26
Fully diluted weighted average number of shares	**155,226**	110,697	**154,070**	102,491
Adjusted EBITDA per share (diluted)	**$0.06**	$0.06	**$0.28**	$0.21

Results of Consolidated Operations

Revenues

The Company's revenue for the year ended December 31, 2012, increased by $235,659 to $436,651 as compared to the year ended December 31, 2011. The increase was primarily due to growth from acquisitions. Revenue growth in 2012 from acquisitions includes $83,305 from Motion Specialties, $81,058 from LifeMark, $64,079 from Classic Care and $18,585 from other acquisitions including DNP, BWC and Performance Medical Group. The balance of the revenue increase of approximately $4,327 can be attributed to organic growth, synergies resulting from acquisitions and growth strategies. These increases were partially offset by an estimated decline of $15,695 in assessment revenues due to changes in government regulations in the assessments sector.

Other acquisitions includes revenues of $10,691 for DNP, $4,682 for BWG and $3,212 for Performance Medical Group.

Expenses

Most of the Company's costs have increased between 2011 as compared to 2012 due to the Company's significant acquisition activity over the past 24 months.

Cost of healthcare services and supplies includes practitioner consultant fees associated with the physiotherapy, assessment and surgical services, the cost of medical and physiotherapy supplies in these businesses and the cost of pharmaceuticals and home medical equipment inventory sold. Cost of healthcare services and supplies for the year ended December 31, 2012, were $221,056 compared to $112,836 for the same period in the prior year. As a percentage of revenue, the cost of healthcare services and supplies decreased to 50.6% from 56.1% between 2012 and 2011. Due to the nature of work performed, more salary costs for Motion Specialties employees are recorded in employee costs as opposed to the costs of healthcare services and supplies.

Employee costs include salaries and benefits of employees working directly in each business segment. For the year ended December 31, 2012, employee costs were $96,425 compared to $32,340 for the same period in the prior year. Included in employee costs for the year ended December 31, 2012 is a net benefit of $865 resulting from the realization of Scientific Research and Experimental

Development tax credits. Employee costs as a percentage of revenue are expected to decline in the future as a result of rationalizations which have occurred in 2012.

Other operating expenses include occupancy costs, insurance, communication, advertising and promotion and administrative expenses incurred at the operational level. Other operating expenses for the year ended December 31, 2012, were $60,666 compared to $23,147 in the comparable period in the prior year which is reflective of the Company's growth over the past two years.

Corporate office expenses include salaries and benefits, occupancy costs, insurance, communication, advertising and promotion and other costs of the corporate office. The corporate office supports human resources, finance and information technology as well as the executive management of the Company. Corporate expenses for the year ended December 31, 2012, were $16,014 compared to $11,284 for the year ended December 31, 2011. Corporate office expenses have improved from 5.6% of revenue for the year ended December 31, 2011 to 3.7% for the year ended December 31, 2012 as a result of the Company's right-sizing initiatives which included the consolidation of corporate office functions into one support centre in Toronto and reductions in advisory fees from GHIS in the prior year.

In the first two quarters of 2012, the Company incurred $558 in non-recurring recruitment fees and consulting fees to bolster its corporate operations support centre. Moreover, the Company incurred additional non-recurring audit fees of $395 that were expensed in the second quarter of 2012 related to the 2011 audit as a result of matters associated with the acquisitions the Company completed in 2011. The Company has also invested in non-recurring costs in the first three quarters of 2012 to enhance the Company's intranet and external websites. In the third quarter of 2012, the Company incurred start-up costs for certain initiatives including the launch of retail massage services, expansion of Foot Doctor orthotic kiosks and the Drivers in Motion programs. In the fourth quarter of 2012, the Company incurred an additional $180 in recruitment fees for a Chief Operating Officer and a Chief Information Officer. Throughout 2012, the Company incurred additional fees of $75 for the implementation of a common payroll platform across the organization. The Company continues to identify efficiencies in corporate services that will result in additional cost savings in the future.

Depreciation and amortization increased by $20,868 from $14,573 for the year ended December 31, 2011 to $35,441 for the year ended December 31, 2012. The majority of this increase is a result of the amortization of intangible assets recognized in the determination of identifiable assets from the Company's acquisitions in 2012. The amortization of intangible assets was $28,340 for the year ended December 31, 2012 compared to $11,470 in the prior year. The remaining increase in depreciation and amortization is directly a result of increased depreciation of property and equipment as the Company's capital asset base has grown through its acquisitions.

Stock-based compensation expense, a non-cash expense, increased by $1,301 for the year ended December 31, 2012. These changes are due an increase in the fair value of stock-based compensation due to the issuance of additional stock options and restricted share units on a period over period basis.

The Company incurred a **loss on disposal of property and equipment** of $432 for the year ended December 31, 2012 is mainly due to the disposal of office furniture and leasehold improvements associated with the closing of the Company's corporate office in Calgary, and the closure of certain physiotherapy clinics.

Transaction and restructuring costs increased by $3,241 to $11,422 for the year ended December 31, 2012 as compared to the prior year as costs have been incurred in the current quarter for the right-sizing of the Company's operations, including severance costs across the organization. The Company made significant acquisitions of Surgical Spaces Inc. (“SSI”) and LifeMark, DNP, BlueWater, Classic Care and Performance Medical Group in 2011 and completed the acquisition of Motion Specialties, five physiotherapy clinic operations, two retail and home medical operations and Class Med during 2012. While direct costs for these acquisitions were lower in 2012 as compared to 2011, the Company has realized an increase in transaction and restructuring costs in 2012 as a result of restructuring costs of $7,920. These costs were incurred for the departure of the Company's former CEO, rationalization and consolidation severance initiatives, right-sizing costs for the Company's assessment operations and the closure of certain physiotherapy clinics.

For the year ended December 31, 2012, **loss from operations**, expressed as revenue less cost of healthcare services and supplies, general and administrative expenses and transaction and restructuring costs was $9,269 or 2.1% of revenues. For the year ended December 31, 2011, loss from operations was $4,532 or 2.3% of revenues. As a percentage of revenue, loss from operations decreased from the same period in the prior year mainly due to increased amortization expense from intangible assets recognized from 2011 acquisitions. The adjusted EBITDA for the year ended December 31, 2012 was $42,832 as compared to $21,360 for the year ended December 31, 2011. Adjusted EBITDA represented approximately 9.8% of revenue for the year ended December 31, 2012 as compared to approximately 10.6% for the prior year. This decline is mainly a result of the current year impact of regulatory reform in the assessments segment, low utilization of operating room capacity in the surgical segment and the inclusion of the results of Motion Specialties which are at lower margins. Within the surgical segment, there are considerable economies of scale as operating room capacity is maximized. As excess operating room capacity decreases in the future a noticeable improvement in margins in the surgical segment is anticipated. The margins for Motion Specialties which was acquired in 2012 are lower than the Company's other operating segments which impacts on the Company's overall margin percentage.

$000's (except for per share amounts)

Interest expense for the year ended December 31, 2012, was $24,350 as compared to $12,245 for the prior year. Interest expense excluding amortization and accretion expenses for the year ended December 31, 2012 was $20,290 as compared to $9,216 for the prior year. Interest expense relates to the Term Loan and Revolving Facility arranged in June 2011, the distribution on preferred partnership units, the related party loan obtained in November 2010, the capital leases assumed in acquisitions and the convertible debentures issued in December 2011, February 2012, May 2012 and September 2012.

	For the year ended December 31,	
	2012 **$**	2011 $
Interest on long-term loan and revolving facilities	**11,324**	4,835
Amortization of loan arrangement fees	**1,771**	2,188
Interest on related party amounts	**781**	500
Accretion of related party loan discounts	**360**	841
Interest on capital leases	**98**	183
Interest on convertible debt	**1,232**	—
Accretion on convertible debt	**1,929**	—
Interest expense before distributions for preferred partnership units	**17,495**	8,547
Distributions for preferred partnership units	**6,885**	3,791
Total interest expense	**24,380**	12,338
Interest income	**(30)**	(93)
Net interest expense	**24,350**	12,245

The **change in fair value of derivative financial instruments** of $1,947 for the year ended December 31, 2012 relates to the change in fair value of interest rate swaps during the period for which the Company has not formally designated as a hedging transaction and the change in fair value of the derivative liability component of convertible debt offerings.

For the year ended December 31, 2012, the Company recognized a gain on the **fair value of contingent consideration liabilities** of $51,164 as compared to a gain of $60,078 in the prior year. The Company is required to value contingent consideration liabilities pursuant to its business combination activities. The Company's common share price fluctuated significantly throughout 2011 and 2012 which affected the value at which contingent consideration liabilities are measured at the end of each reporting period. As part of the Company's acquisition strategy, partial consideration for acquired businesses is paid in shares and/or warrants of the Company. The Company's valuation method to determine the value of contingent consideration is largely based on the value of common shares including a discount to reflect that the shares are not freely tradable until they are released from escrow and the probability of the acquired business achieving stated performance targets. Warrants accrue to the vendors subject to achieving outperformance of earnings targets. The valuation of contingent consideration on the date the acquisition closes becomes part of the total consideration in the purchase price allocation. Subsequently, the contingent consideration is revalued on each reporting date with changes in fair value included in the statement of income. The two main driving factors behind the gain in contingent consideration was the decline in the Company's share price from December 31, 2011 to December 31, 2012 and the settlement of the LifeMark contingent consideration.

The contingent consideration earn-out period for LifeMark ended on June 30, 2012. On August 14, 2012, the Company agreed to release 6,875,000 of the LifeMark escrowed shares to the LifeMark vendors as LifeMark achieved certain performance metrics as specified in the purchase agreement for this transaction. The remaining 40,000,000 LifeMark escrowed shares were cancelled.

As a result of poorer than projected performance, the vendors of LifeMark fell short of achieving the estimated range of escrowed contingent shares which were expected to be issued from this acquisition. The projected EBITDA to earn all of the escrowed shares for the LifeMark base business was approximately $29,000 whereas the LifeMark base business earned $23,800 during the earnout period. The main factors resulting in this outcome were the underachievement of performance targets by LifeMark's assessments operations, which represents less than 30% of the acquired LifeMark operations, as a result of regulatory reform in the industry and higher than expected debt and other obligations that were incurred by the Company from the LifeMark acquisition. Although the assessment operations contributed positive earnings to the Company's operations, the profit levels originally anticipated from LifeMark's assessment operations at the time of the LifeMark acquisition never materialized over the earn-out period. The remaining LifeMark business performed in-line with expectations. As previously disclosed, the LifeMark earn-out formula was highly sensitive, as every $1 million change in actual EBITDA for LifeMark resulted in a change of approximately 6.6 million common shares that could be earned and released from escrow. The structure of the earn-out model was designed to maintain an acquisition price that represented approximately 8.5 times of EBITDA.

The earn-out period for the vendors of Classic Care ended on November 30, 2012. The Classic Care operations achieved the performance targets as outlined in the purchase agreement for this acquisition and as such the Company issued 2,810,094 escrowed shares and 5,000,000 share purchase warrants to the vendors of Classic Care subsequent to December 31, 2012.

The second year earn-out period for the vendors of CAR ended on August 31, 2012. Targets were achieved within the operations of CAR which resulted in the Company issuing 714,284 common shares to the vendors of CAR which represents the maximum number of shares available based on the second year performance of this business.

The first year earn-out periods for BWC, including London Scoping Centre, ended on August 31, 2012. The BWC operations did not achieve their specified performance targets and as such no first year escrowed shares will be released to the vendors of BWC. The vendors of BWC are not expected to earn any escrowed shares in the second and third years of the earnout period. London Scoping Centres achieved approximately 95% of its first year performance targets and subsequent to December 31, 2012 the Company expects to issue 106,670 escrowed shares to the vendors of London Scoping Centres.

The first year earn-out period for Performance Medical Group ended on November 30, 2012 and Performance Medical Group did not achieve their specified performance targets. The Company had adjusted the probability of the first year performance targets being achieved to zero percent in the third quarter of 2012 based on the year to date results from these operations. As a result of employment arrangements with the vendor of Performance Medical Group, the Company issued 1,500,000 escrowed shares on February 5, 2013 to the vendor of Performance Medical Group with a fair value of $915.

On February 28, 2012, the Company issued 10,127,956 of common shares that had been held in escrow to the SSI vendors as SSI achieved certain performance metrics as specified in the purchase agreement for this transaction. The remaining 1,700,000 common shares held in escrow for the vendors of SSI were cancelled. There were no warrants for outperformance that were issued to the vendors of SSI.

$000's (except for per share amounts)

The Company's contingent consideration from significant acquisitions with earn-out periods remaining is outlined in the table below:

Acquisition	Effective Date of Acquisition	Earn-out Period	Warranted EBITDA (Average over earn-out period)	Escrowed Shares	Estimated Probability of Achieving Performance Targets	Contingent Consideration Liability at December 31, 2012 $
BWC	August 17, 2011	3 years	4,650	6,828,846	Common Shares - 0% Warrants - 0%	—
Classic Care	November 17, 2011	1 year	6,670	2,810,094	Common Shares - 100% Warrants - 100%	2,618
Performance Medical Group (75% ownership)	December 8, 2011	2 years	2,750	3,000,000	Common Shares - 0% Warrants - 10%	—
Motion Specialties	February 13, 2012	3 years	10,000	9,004,641	Cash and Common Shares[3] - 80% to 100% Warrants - 10%	11,980

[3] The issuance of cash and common shares is based on a 1/3rd cash, 2/3 common share proportionate formula.

Impairments of $27,421 were recorded for the year ended December 31, 2012 relating to the impairment of goodwill and the valuation of the BWC, Classic Care and Motion Specialties trademarks. The Company completed its annual impairment test of goodwill and indefinite life intangible assets and concluded that there was an impairment of $20,688. A significant portion of the consideration paid for acquisitions include shares of the Company and cash to settle the contingent consideration portion of the purchase price. The value of contingent consideration is valued based on the Company's share price at the date of acquisition and discounted to reflect that the shares are not freely tradeable until they are released from escrow. This increases the cost of the acquisition and related recognition of goodwill. If the Company's share price declines from the date of acquisition or the Company revises downward the probability of a vendor achieving their targeted earn-out, this results in a reduction in the contingent consideration obligation to vendors and the recognition of a gain for the change in the fair value of the contingent consideration obligation. The Company considers these reductions in the assessment of the fair value of the acquired company for the purposes of assessing impairment of goodwill and indefinite life intangible assets acquired from an acquisition. The Company completed a reconciliation between their market capitalization and the fair value of their CGUs in order to confirm the conclusion reached. The Company also ceased the use of the BWC name for its Sarnia, Ontario location in January 2013 and now operates under its new name, Centric Surgical Centre Sarnia. The Company identified an indicator of impairment related to the Classic Care and Motion Specialties trademarks at December 31, 2012. As part of the identification of intangible assets, these trademarks have been recorded at their fair market value. The Company has recorded impairments of $3,100 for the Classic Care trademark and $2,200 for the Motion Specialties trademark. The remaining balance reflects the estimated fair value of these trademarks based on the expected life over which the Company intends to use them.

Impairments of $52,801 were recorded in 2011 mainly relating to a goodwill impairment which arose from the acquisition of LifeMark. A significant portion of the consideration paid for LifeMark in June 2011 included shares of the Company to settle the contingent consideration portion of the purchase price. The value of contingent consideration was initially valued based on the Company's share price at the date of acquisition which was $2.90 per share. This substantially increased the cost of the acquisition and related to the recognition of goodwill. The Company's share price at December 31, 2011 was $1.59. The Company revised its estimate for the amount of contingent consideration that the vendors of LifeMark will receive at the conclusion of their earn-out period. This revision has reduced the contingent consideration obligation and the Company's assessment of the LifeMark fair value for the purposes of assessing impairment of goodwill and indefinite life intangible assets acquired with the acquisition of LifeMark.

$000's (except for per share amounts)

Income tax recovery increased from $1,918 for the year ended December 31, 2011 to $841 for the year ended December 31, 2012. The increase in the Company's recovery is mainly due to the Company generating loss carryforwards in certain legal entities. The Company has projected that it will generate taxable income in order to use these loss carryforwards, except for an unrecognized deferred tax asset of $3,500 which the Company has not recorded for the year ended December 31, 2012 in respect of certain non-capital losses. Income tax recovery is calculated at the statutory rate of approximately 26.5% and is applied on income before taxes adjusted for items that adjust income for tax purposes, primarily stock-based compensation, changes in fair value of contingent consideration, transaction costs, losses carried forward, capital cost allowances and eligible capital deductions.

Segment Overview

Physiotherapy

The physiotherapy segment is comprised of: 105 owned physiotherapy clinics and a network of 36 additional clinics, seniors' wellness operations and the homecare business operated by Community Advantage Rehabilitation, Inc. ("CAR"). The seniors' wellness and homecare businesses are largely funded by the Ontario Ministry of Health and Long Term Care ("MOHLTC").

This segment also specializes in high quality rehabilitation and disability management services that focus on physiotherapy services to seniors in 468 retirement, assisted-living and long-term care homes with more than 50,000 residents operating primarily in the province of Ontario through its network of independent consultants.

CAR performs homecare services in the communities 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.

Pharmacy

The Company has developed a retail and niche pharmacy network of 18 pharmacies that service 36 treatment centres and pharmaceutical dispensing operations that service over 200 long-term care facilities with over 16,000 residents. This segment is comprised of Classic Care and DNP that services 36 addiction treatment centres across Ontario from its facilities. The Company's script count is approximately 750,000 scripts per month.

Retail and Home Medical Equipment

The Company diversified its services into retail and home medical equipment in 2011 and currently has 145 retail and home medical locations across Canada. In addition to its existing MEDIchair and Performance Medical Group operations, in February 2012, the Company further expanded its home medical equipment services through the acquisition of Motion Specialties. The following chart provides an overview of the Company's Retail and Home Medical Equipment segment.

Operations	**Nature of Business**	**Locations**
Motion Specialties	A leading home healthcare provider offering a wide range of mobility devices, including: wheelchairs, scooters, walkers, bathroom safety equipment, portable oxygen, Continuous Positive Airway Pressure ("CPAP") machines, and home accessibility products such as stair lifts and home elevators.	24
MEDIchair	Specializes in the sales of various wheelchairs and accessibility equipment for the home. The results of MEDIchair include corporate-owned stores as well as royalties earned from franchised stores.	8 corporate stores and 62 franchise locations
Performance Medical Group	Offers state-of-the-art custom orthotics, off-the-shelf orthotics, custom bracing, laser and shockwave therapy.	Over 50 locations

With increased buying power, the Company continually seeks to negotiate more favorable purchase and payment terms which will assist with improving future profitability and working capital requirements.

Assessments

Following right-sizing activities, the assessments segment is currently comprised of 5 assessment facilities across Canada. The operations in the assessments segment are preferred providers to a number of insurance companies in Canada. The Company has over 30 preferred provider assessment agreements and 3,750 assessors including 600 physicians.

This segment focuses on assessing patients who have suffered motor vehicle and workplace injuries by providing independent evaluations to insurers, workers compensation boards and employers across Canada. Through relationships with patients, insurers, workers compensation boards and employers, the Company is providing superior service to its clients and patients.

Revenues and margins of the segment have been negatively impacted by the regulatory reform, as well as consolidation within the industry. Management continues to pursue revenue-generating opportunities in the segment to mitigate the effect of regulatory changes and navigate the best outcomes for patients and the business. The outlook for this segment remains positive given the Company's increased national presence as well as the Company's focus on efficiencies and cost savings in operations. In 2012, the Company saw some positive signs as referrals increased on a month over month basis for the first time since regulatory reform was introduced in the fall of 2010. The Company also has continued with initiatives to right-size the assessments operations. While this segment has seen its revenues and profits decline over the past year and a half as a result of the regulatory reform, it continues to generate positive income and cash flows for the Company. As smaller assessment companies face difficulty in remaining profitable given the decline in the assessment markets, the Company is strategically well positioned to increase its market share given its size and national presence.

Surgical and Medical Centres

The Company has seven Surgical and Medical Centres across Canada with a total of 19 operating rooms and 86 beds. The segment is comprised of the operations of the Don Mills Surgical Unit in Toronto, Ontario, Centric Surgical Centre in Sarnia, Ontario, Windsor Endoscopy in Windsor, Ontario, London Scoping Centre in London, Ontario, False Creek Health Centre in Vancouver, British Columbia, Canadian Surgical Solutions (“CSS”) in Calgary, Alberta and Maples Surgical Centre in Winnipeg, Manitoba.

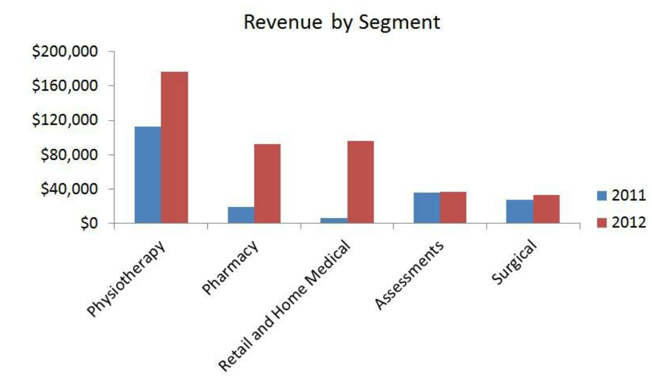
The Company's surgical centres offer a variety services which may include; primary care, executive medical, urgent care and diagnostic services, including CT and MRI scan capabilities. Surgical specialties include plastic, reconstructive, cosmetic, orthopedic, gynecology, urology, neurosurgery, bariatric, endoscopic and otolaryngology. The Company also operates a sleep clinic from its Don Mills Surgical Unit. The Company's customers include Workers Compensation Boards, regional health authorities, non-residents, private patients and various governmental agencies.

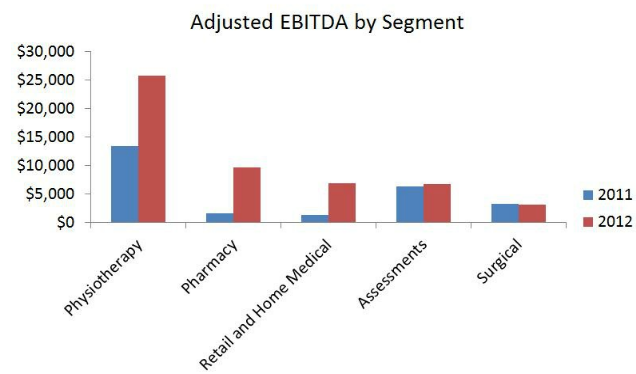
$000's (except for per share amounts)

Results of Segmented Operations

This section presents the results of operations for the years ended December 31, 2012 and 2011 for the various operating segments of the Company. Operating segments, as reported to the Chief Operating Decision Makers ("CODM") are as follows: Physiotherapy, Pharmacy, Retail and Home Medical Equipment, Assessments and Surgical and Medical Centres. The support services provided through the corporate offices largely support the operations of the Company and certain of these costs have been allocated to the operating segments based on the extent of corporate management's involvement in the reportable segment during the period.

For the years ended December 31,	**Revenue**		**Adjusted EBITDA**			
	2012 $	2011 $	**2012 $**	**%**	2011 $	%
Physiotherapy	**176,726**	112,307	**25,725**	**14.6**	13,460	12.0
Pharmacy	**92,769**	19,235	**9,714**	**10.5**	1,622	8.4
Retail and Home Medical Equipment	**96,445**	6,170	**6,906**	**7.2**	1,381	22.4
Assessments	**37,210**	35,654	**6,720**	**18.1**	6,306	17.7
Surgical and Medical Centres	**33,501**	27,626	**3,201**	**9.6**	3,321	12.0
Corporate	—	—	**(9,434)**	—	(4,730)	—
Total	**436,651**	200,992	**42,832**	**9.8**	21,360	10.6





Physiotherapy

Revenue for the **Physiotherapy** segment increased by $64,419 or 57% as compared to the prior year. The main driver for the revenue growth in this segment was the acquisition of LifeMark on June 9, 2011 which contributed incremental revenue in 2012 from its seniors' wellness division and the operations of over 100 clinics. In addition, the Company realized incremental revenue of $5,755 from the acquisition of five physiotherapy clinics in the first quarter of 2012. The Company also launched massage services and retail initiatives in this segment which contributed to the revenue growth in 2012. The Company's physiotherapy clinics operate across Canada in seven provinces and its seniors' wellness and homecare businesses are based in Ontario and the majority of revenue is funded through various government insurance programs and agencies related to the MOHLTC.

Adjusted EBITDA increased from $13,460 to $25,725 for the years ended December 31, 2012 and 2011. The majority of the increase in adjusted EBITDA over the prior year is attributed to the inclusion of the LIfeMark business for a full year in 2012 compared to the post-acquisition period in 2011. LifeMark was acquired on June 9, 2011. The Company has increased the adjusted EBITDA margin from 12.0% to 14.6% on a year over year basis due to economies of scale realized in managing the businesses and increased volume of patients.

Pharmacy

Pharmacy revenues increased from $19,235 for the year ended December 31, 2011 to $92,769 for the year ended December 31, 2012. The significant increase in pharmacy revenue can be attributed to the acquisitions of DNP on August 15, 2011 and the acquisition of Classic Care on November 17, 2011. The acquisitions of DNP and Classic Care added $10,691 and $64,079, respectively in revenue for the year ended December 31, 2012. The Company's pharmacy operations continue to pursue revenue-generating and diversification strategies to further enhance its performance.

Adjusted EBITDA increased by $8,092 to $9,714 between 2011 and 2012 respectively. This increase can mainly be attributed to the added profits from DNP and Classic Care which businesses generate higher margins as compared to the Company's legacy pharmacy operations. Moreover, the Company has been able to achieve economies of scale through consolidated purchasing for its consolidated pharmacy operations.

Retail and Home Medical Equipment

The **Retail and Home Medical Equipment** segment is comprised of the operations of Motion Specialties, MEDIchair and Performance Medical Group. Revenue for this segment for the year ended December 31, 2012 was $96,445 as compared to $6,170 for the year ended December 31, 2011. The main reason for the increase in this segment is the acquisition of Motion Specialties in the first quarter of 2012 and Performance Medical Group in the fourth quarter of 2011. These acquisitions contributed revenues of $83,305 and $3,212, respectively for the year ended December 31, 2012.

Adjusted EBITDA for this segment for the year ended December 31, 2012 was $6,906 as compared to $1,381 in the prior year. Motion Specialties is the largest component of this segment and its addition will result in overall lower Adjusted EBITDA margins for the segment. Previously the Adjusted EBITDA margin for this segment was higher as this segment includes the royalty revenues earned from the MEDIchair franchises which has significantly fewer costs associated with earning the revenue. As MEDIchair's royalty revenues become a much smaller component of this segment with the addition of Motion Specialties, it will lead to the Adjusted EBITDA margin to decrease. In addition, the management of Motion Specialties is in the early stages of centralizing many of their support functions which are currently dispersed across many of their locations. With benefits of combined buying power, maximizing the utilization of the existing platform and centralization of support functions, the Company expects increases in the Adjusted EBITDA margins in the future.

Assessments

Revenue for **Assessments** increased by $1,556 for the year ended December 31, 2012 as compared to the prior year. The increase in revenue from the prior year is due to the acquisition of LifeMark in June 2011 as the results of the LifeMark assessment operations were included in the results of the Company from the date of acquisition.

Adjusted EBITDA increased to $6,720 from $6,306 for the years ended December 31, 2012 and 2011. The Adjusted EBITDA margin increased to 18.1% from 17.7% for the years ended December 31, 2012 and 2011. This margin increase can be attributed to the Company's continuing efforts to re-engineer the operations and reduce its costs in response to regulatory reforms in the assessments segment. These efforts included a reduction in headcount and a consolidation in the number of assessment centres servicing clients.

Referrals from auto insurers had been in a continuous decline as a result of regulatory reform in this segment; however, referrals have stabilized on a month over month basis since March 2012. Referrals did experience a decline between the second and third quarter of 2012 due to certain seasonality factors in this industry however they increased in the fourth quarter. Revenue per assessment has decreased on a year over year basis. The regulatory reform included changes to minor injury guidelines, price caps, changes in case-mix of referrals and consolidation within the industry. The Company has worked diligently to make cost-effective changes in the division to maintain profit margins including consolidating the administration of the business into a single location and aligning the businesses onto one operating system.

While the total market in assessments is in decline, the Company is focused on growing the business through initiatives aimed at increasing the Company's market share. The Company is aggressively pursuing revenue generating opportunities with auto insurers and workers compensation boards and has successfully obtained additional contracts with insurers in the current year for future work due to its national representation and focus on quality assessments for insurers. The Company has critical mass in the national market, providing greater diversification within the auto insurance industry, offering multiple disciplines within our current assessor roster and being staffed with professionals that allow the business to capitalize on opportunities within the disability, employer and government markets.

$000's (except for per share amounts)

Surgical and Medical Centres

Revenue generated by the **Surgical and Medical** segment for the year ended December 31, 2012 was $33,501 as compared to $27,626 for 2011. This revenue increase from the same period in the prior year is a result of the acquisition of CSS as part of the LifeMark transaction on June 9, 2011 and the acquisition of BWC on August 17, 2011. For the year ended December 31, 2012, the incremental revenue contribution from the BWC and CSS acquisitions were $4,682 and $2,576, respectively. Approximately 72% of the Company's revenue for the year ended December 31, 2012 in the surgical and medical centres segment comes from the Company's False Creek, Maples and CSS operations in Western Canada.

Adjusted EBITDA decreased from $3,321 for the year ended December 31, 2011 to $3,201 for the year ended December 31, 2012. These decreases can be mainly attributed to low utilization of operating room capacity as there were increased surgeon vacations in the current year as compared to the prior year. In addition, the Company has experienced challenges at its BWC operations in Sarnia which has negatively impacted adjusted EBITDA and resulted in the Company undertaking management changes at this location in the fourth quarter of 2012. These management changes included the departure of the primary revenue generating surgeon for this location. The Company has a new leadership team in place at this location and the long-term prospects for the Sarnia facility are strong. In addition, the Company's False Creek surgical centre was forced to close for several days during the year due to renovations and a gas leak that occurred near this surgical centre.

The Company is actively implementing key initiatives and seeking new doctors with which to partner in order to increase utilization at its surgical centres and in turn increase the revenues and adjusted EBITDA of this segment. During the fourth quarter of 2012, the Company launched its first surgical center of excellence in orthopedics in Toronto, Ontario.

Fourth Quarter Results

	For the three month periods ended December 31,	
	2012 **$**	2011 $
Revenue	**110,917**	77,265
Loss from operations	**(6,846)**	(5,997)
Impairments	**27,421**	52,801
Loss before interest expense and income taxes	**(31,525)**	(66,267)
Interest expense	**6,562**	4,756
Income tax expense (recovery)	**443**	(3,539)
Net loss	**(38,530)**	(67,484)
Net loss per share		
Basic	**(0.32)**	(0.74)
Diluted	**(0.32)**	(0.74)
Adjusted EBITDA		
Adjusted EBITDA per share	**9,591**	6,271
Basic	**0.08**	0.07
Diluted	**0.06**	0.06

Revenue for the three month period ended December 31, 2012 increased by $33,652 from the prior year to $110,917 in the current year. The increase in revenue on a period over period basis can mainly be attributed to the acquisitions the Company has completed in the current year, in addition to organic growth.

In the fourth quarter of 2012, the loss before interest expense and income taxes was $31,525 as compared to $66,267 for the same period in the prior year. The period over period change can mainly be attributed to the impairment charges of $52,801 that were recorded during the fourth quarter of 2011 as compared to an impairment of $27,421 in the fourth quarter of 2012 and an increase in the fair value of derivative financial instruments of $1,440 on a period over period basis.

$000's (except for per share amounts)

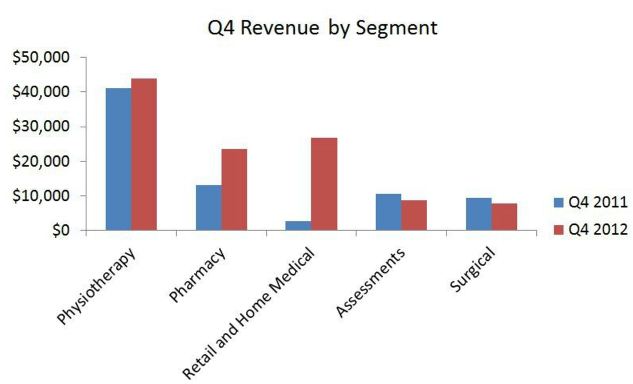
Interest expense increased by $1,806 on a period over period basis. On a year over year basis, the Company's borrowing rates have remained relatively consistent . The increase can be mainly attributed to the Company's increased borrowings compared to the fourth quarter of 2011 as the Company completed three convertible debt financings in 2012.

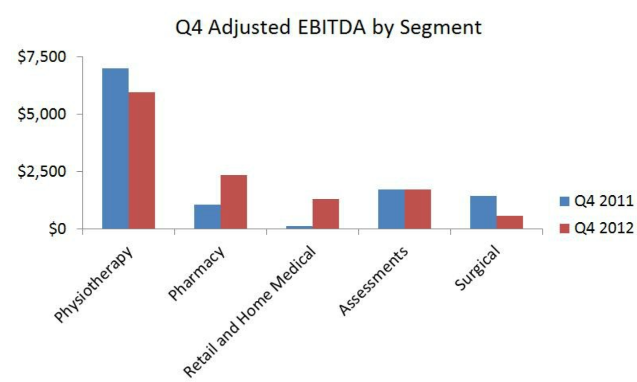
Income tax recovery has increased by $3,982 from the three month period ended December 31, 2011 to the three month period ended December 31, 2012. This increase can mainly be attributed to the Company generating loss carryforwards in certain legal entities. The Company has projected that it will generate taxable income in order to use these loss carryforwards, except for an unrecognized deferred tax asset of $3,500 which the Company has not recorded for the year ended December 31, 2012 in respect of certain non-capital losses.

Adjusted EBITDA increased from $6,271 for the three month period ended December 31, 2011 to $9,591 for the three month period ended December 31, 2012. Adjusted EBITDA of $1,529 from Motion Specialties, which was acquired in the first quarter of 2012, accounted for the majority of this increase. Another significant driver of the increase was a decrease in corporate costs by $2,731 over this period resulting from the Company's rationalization initiatives over the past year which included the consolidation of the Company's support centre into one location.

The adjusted EBITDA by segment for the three month period ended December 31, 2012 and 2011 are as follows:

For the three month periods ended December 31,	**Revenue**		**Adjusted EBITDA**			
	2012 **$**	2011 $	**2012** **$**	%	2011 $	%
Physiotherapy	43,828	41,416	5,966	13.6%	6,983	16.9%
Pharmacy	23,660	13,217	2,344	9.9%	1,056	8.0%
Retail and Home Medical Equipment	26,802	2,706	1,325	4.9%	137	5.1%
Assessments	8,830	10,553	1,744	19.8%	1,739	16.5%
Surgical and Medical Centres	7,797	9,373	578	7.4%	1,453	15.5%
Corporate	—	—	(2,366)	—	(5,097)	—
Total	110,917	77,265	9,591	8.6%	6,271	8.1%





Physiotherapy

Revenue for the **Physiotherapy** segment increased by $2,412 or 5.8% from the fourth quarter of 2011 to the fourth quarter of 2012. The main drivers of the increase are incremental revenue from the acquisition of five physiotherapy clinics in the first quarter of 2012 in addition to the expansion of the Company's retail and massage initiatives in 2012. Adjusted EBITDA decreased by $1,017 between the fourth quarter of 2011 and the fourth quarter of 2012. This decrease can be attributed to additional corporate costs being allocated related to the development and implementation of growth initiatives. Adjusted EBITDA from operations was consistent between the two comparative periods. In addition, in spite of increased revenue, the Adjusted EBITDA margin decreased due to the mix of services provided. The Company expects that the complement of services provided to return to its past mix in the coming quarters.

Pharmacy

Revenue for the **Pharmacy** segment increased by $10,443 to $23,660 and adjusted EBITDA increased by $1,288 to $2,344 for the three month period ended December 31, 2012 as compared to the same period in the prior year. The timing of the acquisition of Classic Care in November 2011 was the main factor which resulted in the increased revenue and Adjusted EBITDA in the pharmacy operations. The Adjusted EBITDA margin improved over the same period to 9.9% from 8.0% as the Company was able to extract synergies from the integration of their pharmacy operations including the benefits from consolidated purchasing initiatives.

Retail and Home Medical Equipment

Revenue for the **Retail and Home Medical** segment increased by $24,096 to $26,802 and adjusted EBITDA increased by $1,188 to $1,325 between the fourth quarter of 2011 and the fourth quarter of 2012. The main reason for these increases was the inclusion in the Company's results of Motion Specialties for the fourth quarter of 2012 as the Adjusted EBITDA margin for Motion Specialties is lower than the Adjusted EBITDA margin for the Company's existing operations in this segment which are mainly related to franchise royalty revenue.

Assessments

Revenue for the **Assessments** segment decreased by $1,723 to $8,830 for the three month period ended December 31, 2012 as compared to the three month period ended December 31, 2011. Revenue decreased on a period over period basis as a result of the impact of regulatory reform in the assessments industry. However, the Company maintained a consistent adjusted EBITDA on a period over period basis with an improved adjusted EBITDA margin of 19.8% in the fourth quarter of 2012 as compared to 16.5% in the fourth quarter of 2011. This improvement in the adjusted EBITDA margin is a direct result of the Company realizing the benefits of the right-sizing initiatives in the assessment operations that were implemented in the first half of 2012.

Surgical and Medical Centres

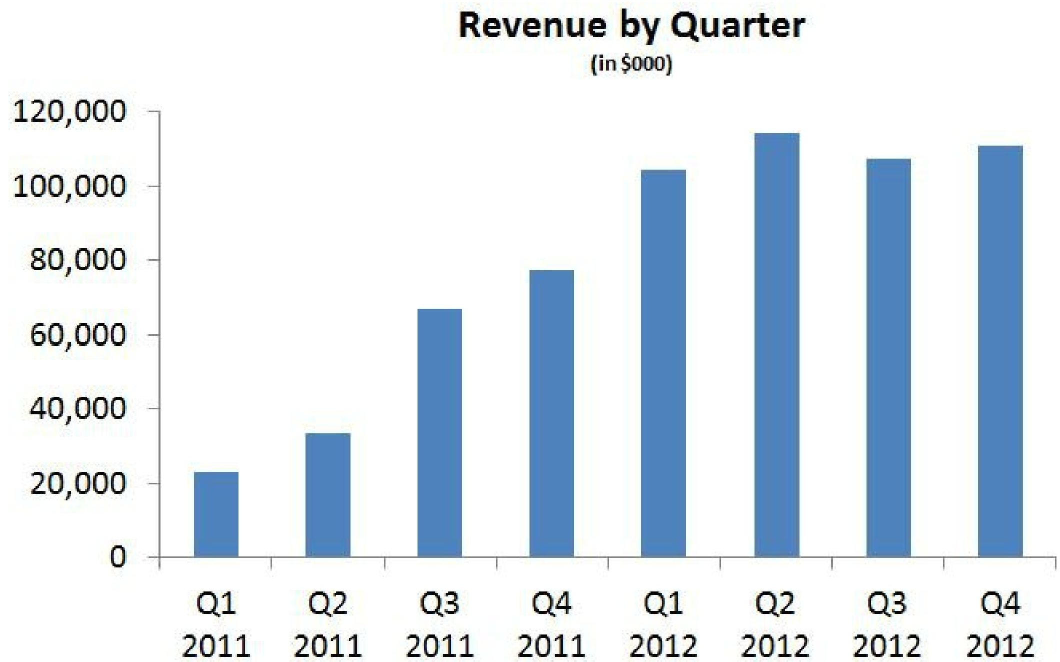
Revenue for the **Surgical and Medical** segment decreased by $1,576 to $7,797 and adjusted EBITDA decreased by $875 for the three month period ended December 31, 2012 as compared to the three month period ended December 31, 2011. Due to BWC's lower than anticipated financial performance since its acquisition, the Company made certain management changes at this facility in the fourth quarter of 2012. During this management transition, there was a negative impact on revenue and adjusted EBITDA. Moreover, the Company's revenue at the False Creek location was lower than the prior year when this facility had increased surgeries over the holiday period from out-of-country patients. The Company also started its first centre of excellence in orthopedics in the fourth quarter of 2012 and incurred certain start-up losses related to the launch of this initiative.

$000's (except for per share amounts)

Summary of Quarterly Results

	4th Quarter ($)		3rd Quarter ($)		2nd Quarter ($)		1st Quarter ($)	
Fiscal year 2012								
Revenue and other income	110,917		107,358		114,123		104,253	
Adjusted EBITDA	9,591		9,008		12,454		11,779	
Adjusted EBITDA per share								
Basic	0.08		0.08		0.11		0.11	
Diluted	0.06		0.07		0.10		0.09	
Net (loss) income	(38,530)	[4]	(6,273)	[5]	42,366	[6]	(4,651)	[7]
(Loss) income per share								
Basic	(0.32)		(0.05)		0.38		(0.04)	
Diluted	(0.32)		(0.05)		0.34		(0.04)	
Fiscal year 2011								
Revenue and other income	77,265		67,096		33,596		23,035	
Adjusted EBITDA	6,271		9,689		3,213		2,195	
Adjusted EBITDA per share								
Basic	0.07		0.12		0.03		0.03	
Diluted	0.06		0.09		0.03		0.03	
Net (loss) income	(57,555)	[8]	38,889	[9]	11,722	[10]	(2,034)	[11]
(Loss) income per share								
Basic	(0.63)		0.47		0.15		(0.03)	
Diluted	(0.63)		0.37		0.11		(0.03)	

[4] The net income for the quarter ended December 31, 2012 includes $5,893 as a non-cash gain in net income representing the decrease in fair value of the contingent consideration liability and $2,780 of transaction and restructuring costs.
[5] The net income for the quarter ended September 30, 2012 includes $1,680 as a non-cash gain in net income representing the decrease in fair value of the contingent consideration liability and $3,861 of transaction and restructuring costs.
[6] The net income for the quarter ended June 30, 2012 includes $44,993 as a non-cash gain in net income representing the decrease in fair value of the contingent consideration liability and $2,454 of transaction and restructuring costs.
[7] The net loss for the quarter ended March 31, 2012 includes $1,402 as a non-cash charge to net income representing the increase in fair value of the contingent consideration liability and $2,327 of transaction and restructuring costs.
[8] The net income for the quarter ended December 31, 2011 includes a non-cash gain of $2,562 representing the increase in fair value of the contingent consideration liability, non-cash impairment charges of $52,801 and $3,627 of transaction and restructuring costs.
[9] The net income for the quarter ended September 30, 2011 includes a non-cash gain of $39,374 representing the decrease in fair value of the contingent consideration liability and $873 of transaction and restructuring costs.
[10] The net income for the quarter ended June 30, 2011 includes a non-cash gain of $14,751 representing the decrease in fair value of the contingent consideration liability and $2,734 of transaction and restructuring costs.
[11] The net income for the quarter ended March 31, 2011 includes $1,784 as a non-cash charge to net income representing the increase in fair value of the contingent consideration liability and $947 of transaction and restructuring costs.



The Company has realized revenue growth in seven of the last eight quarters which is illustrative of the overall growth in the business both organically and through acquisitions. The Company's strategy to improve top line growth through accretive strategic acquisitions has resulted in revenues increasing by 44% for the fourth quarter of 2012 as compared to the fourth quarter of 2011. The Company's adjusted EBITDA margin improved from 8.1% for the three month period ended December 31, 2011 to 11.2% for the three month period ended March 31, 2012, remained stable at 10.9% for the three month period ended June 30, 2012 and then declined to 8.4% and 8.6% for the three month periods ended September 30, 2012 and December 31, 2012. The decline in the most recent quarters can be attributed to the margins for Motion Specialties being lower than the Company's existing operations. Moreover, the Company's surgical division has faced some management changes in the second half of 2012. As these changes are being implemented, there have been fewer procedures performed in the surgical division. The margins for surgical procedures tend to be higher than the margins for most of the Company's other operations and thus the decrease in the number of surgical procedures performed has resulted in an overall decrease of the Company's adjusted EBITDA margin. The Company is actively seeking new physicians and launching new initiatives in order to utilize excess operating room capacity.

The volatility in net income (loss) quarter over quarter in 2012 and 2011 compared to previous quarters is largely due to the fluctuations in contingent consideration, transaction and restructuring costs and impairments.

The Company is required to value the contingent consideration liabilities pursuant to its business combination activities. Throughout 2012 and 2011, the Company's common share price fluctuated significantly, affecting the quantum at which the contingent consideration liabilities are valued at the end of each reporting period. The most significant reason for the gain in fair value for the change in the contingent consideration liability throughout 2012 has been the decline in the Company's share price from $1.59 at December 31, 2011 to $0.67 at December 31, 2012. In addition, the earn-out period for the LifeMark transaction ended at June 30, 2012 and resulted in 40,000,000 escrowed LifeMark shares being cancelled which also impacted on the gain realized in the second quarter of 2012.

Transaction costs are expensed as incurred. Transaction costs have increased proportionally with the size of the acquisitions completed, leading to increased charges against earnings in recent quarters. These transaction costs are reflective of the Company's significant acquisition and restructuring activities during 2012 and 2011.

The Company's Adjusted EBITDA increased by $677 to $9,591 from the third quarter of 2012 to the fourth quarter of 2011. This increase was mainly a result of the Company realizing the benefit of its integration efforts. However, this increase was mitigated by a decline in Adjusted EBITDA for the surgical segment due to the closure of the surgical centers over the Christmas holiday period and due to the impact of management changes at the Company's surgical centre in Sarnia, Ontario. The Company's Adjusted

EBITDA declined by $3,446 to $9,008 for the third quarter of 2012. The decline in Adjusted EBITDA from the second quarter to the third quarter of 2012 can mainly be attributed to the reduction in surgeries in the surgical segment and a decrease in Adjusted EBITDA in the physiotherapy segment due to the seasonality associated with the Company's physiotherapy clinics. During the summer months, patients tend to have fewer physiotherapy treatments and healthcare professionals tend to take personal vacations. The Company's Adjusted EBITDA increased by $5,508 to $11,779 from the fourth quarter of 2011 to the first quarter of 2012 and by $675 to $12,454 from the first to second quarter of 2012. The increase from the fourth quarter of 2011 to the first quarter of 2012 can mainly be attributed to the accretive earnings from Motion Specialties of $1,293 from the date of its acquisition on February 13, 2012 as well as the earnings of Classic Care and Performance Medical Group for a full quarter as these acquisitions took place during the fourth quarter of 2012, ongoing organic growth, and the benefit of cost rationalization plans that were implemented in the third and fourth quarters of 2011. The increase in Adjusted EBITDA from the first quarter to the second quarter of 2012 can be attributed to the results of Motion Specialties being included for a full quarter and the on-going benefit of rationalization plans.

Liquidity and Capital Resources

The main working capital requirement relates to the financing of inventories and accounts receivable primarily from the MOHLTC, other government agencies, employers and insurance companies. These receivables totaled $58,325 at December 31, 2012. The Company has focused on its collection efforts as some of their largest insurance customers have balances falling outside of expected payment terms. Management has spent considerable time and resources on investigating and resolving these issues. The Company is focused on managing its cash flows and is seeking to better align supplier payment terms with its cash collections cycle from government agencies and insurance companies.

The Company has a Term Loan agreement with a syndicate of Canadian banks. The Term Loan had an initial limit of $160,000 and a term of four years ending in June 2015. The Term Loan accrues interest at variable rates based on prime; interest is payable monthly, in arrears. The Company is required to make quarterly principal payments according to the terms of its borrowing agreement. Principal repayments required in the twelve months subsequent to December 31, 2012, total $15,000. In addition to the Term Loan, the syndicate has also provided the Company with a Revolving Facility with a limit of $35,000, inclusive of $10,000 overdraft line availability, at a variable rate based on prime. The Company also had additional borrowing capacity in terms of a pre-arranged accordion of $40,000 to be made available under its Revolving Facility, for acquisitions. During the year ended December 31, 2012, the Company used the accordion as part of its acquisition of Motion Specialties and as such currently has a borrowing limit of $75,000 under the Revolving Facility. The Revolving Facility has a term of four years and accrues interest at variable rates based on prime. At December 31, 2012, the Company had borrowed $127,500 against the Term Loan and $45,477 against the Revolving Facility. The Company has made principal repayments of $27,500 against the Term Loan for the year ended December 31, 2012, including a $15,000 pre-payment from proceeds for a private placement in May 2012. The Term Loan is presented net of loan arrangement fees in the statement of financial position. Loan arrangement fees are amortized using the effective interest method over the term of the loan.

The Company is subject to certain financial performance covenants as part of its banking agreement. On May 10, 2012, these covenants were amended based on the Company's 2012 approved budget. On December 28, 2012, these covenants were amended for the December 31, 2012 measurement date. The Company was in compliance with its financial performance covenants at December 31, 2012. The Company did not meet certain of its financial performance covenants at March 31, 2012 and December 31, 2011. However, the Company received a waiver from its lenders subsequent to March 31, 2012 and December 31, 2011, respectively, with respect to certain financial performance covenants at March 31, 2012 and December 31, 2011. As required under IFRS, the Company presented its net Term Loan and Revolving Facility balances as current liabilities for these periods. At December 31, 2012, the Company's Term Loan and Revolving Facility balances are presented as long-term liabilities except for any amounts which are scheduled to be repaid by the Company within the next twelve months.

The Company forecasts cash flows for its current and subsequent fiscal years to project future financial requirements. In anticipation of changes in capital requirements in 2012 and 2013, on October 21, 2011, the Company filed a base shelf prospectus. The base shelf prospectus provides for the Company to raise additional capital through the issuance of up to $265,500 in convertible debt securities, common shares and share purchase warrants. The Company completed a prospectus supplement under this base shelf prospectus which raised gross proceeds of $13,610 in the fourth quarter of 2011 and the first quarter of 2012 through the sale of units.

In February 2012, the Company completed the second closing of an innovative prospectus supplement focusing on staff and healthcare professionals, raising gross proceeds of $13.6 million from the first and second closings of this offering from approximately 180 participants.

On May 8, 2012, the Company completed a private placement of $15,000 of subordinated, unsecured convertible notes which the Company used to pay down its Term Loan.

On September 14, 2012, the Company completed a prospectus supplement under the base shelf prospectus for the issuance of convertible notes for gross proceeds of $25,000. Additional gross proceeds of $2,500 for an over-allotment were received in October 2012. The net proceeds from this financing have been used to reduce the Company's Revolving Facility.

On March 21, 2013, the Company amended certain financial performance covenants for the March 31, 2013 and June 30, 2013 measurement dates based on the Company's 2013 approved budget.

The Company anticipates that, based on meeting its 2013 operating budget, it will generate sufficient cash flow from operations in 2013 to meet its obligations as they come due. The financial performance covenant amendments for the first and second quarters of 2013 were necessary due to the Company's 2012 results not meeting the approved budget. To meet the revised and existing 2013 financial performance covenants the Company will be required to achieve a risk downgraded 2013 operating budget which reflects an improvement over the Company's actual performance in 2012. There can be no assurance that the Company will be successful in achieving the results as set out in its operating plan.

Based on existing cash flow, overall debt levels and the need to focus on operational performance improvements, the Company is considering alternative lending arrangements to replace the existing Term Loan and Revolving Facility. While alternative arrangements may come at a higher interest cost, their terms would likely provide greater financial flexibility with less onerous financial performance covenants. The Company's focus in 2013 will be on improving operating performance and more fully integrating 2011 and 2012 acquisitions. Without 2013 performance to the Company's plans, additional equity contributions or a refinancing arrangement, the Company may not meet certain financial performance covenants in 2013 under its Term Loan and Revolving Facility. In this circumstance, the Company will be dependent on the continued support of its senior lenders.

In order to maintain or adjust its capital structure, the Company may seek additional financing through the issuance of new debt or equity securities, or by replacing existing debt with debt subject to more favorable terms.

Cash Flow

Cash flow activities for the year ended December 31, 2012 were as follows:

Operating Activities

For the year ended December 31, 2012, cash provided by operating activities was $15,314, compared to $7,598 for the same period in 2011. In the first quarter of 2012, the Company undertook a strategic initiative to negotiate more favorable terms with certain suppliers in the retail and home medical equipment segment. As a part of this initiative, the Company paid down its amounts owing to these suppliers on a more rapid basis in the first quarter of 2012. In the remaining three quarters of 2012, the Company began to realize the benefits from this initiative. Moreover, the Company enhanced its focus on managing working capital. Through this focus the Company generated positive cash flows from operating activities for the second, third and fourth quarters of 2012. In addition, included in operating activities are transaction and restructuring costs incurred of $11,422 for the year ended December 31, 2012. Cash provided by operating activities, exclusive of transaction and restructuring costs, was $26,736 for the year ended December 31, 2012.

Investing Activities

For the year ended December 31, 2012, the Company used $29,272 for investing activities as compared to $141,076 for the year ended December 31, 2011. The Company used $19,492 for the acquisitions of businesses in 2012 which is consistent with the Company's growth strategy. The cash consideration component of acquisitions completed in 2012 included $13,896 for Motion Specialties, $2,727 for the acquisition of five physiotherapy businesses and $2,372 for the acquisition of retail and home medical equipment retail stores. During the third quarter of 2012, the Company received $1,104 in funds from the vendors of Motion Specialties as part of the finalization of the acquired working capital for this transaction.

$000's (except for per share amounts)

The purchase of property and equipment for the year ended December 31, 2012 was $7,928 as compared to $4,139 for the prior year. The Company also entered into $188 of new capital leases for surgical equipment during 2012.

Financing Activities

During the year ended December 31, 2012, the Company made scheduled repayments of $12,500 towards its Term Loan. In addition, the Company made a prepayment of $15,000 towards its Term Loan for the year ended December 31, 2012 from proceeds raised from a private placement in May 2012. For the year ended December 31, 2012, the Company borrowed an additional $18,589 from its revolving credit facilities. The majority of these additional borrowings were used for business acquisitions completed in 2012. The Company paid $19,432 in cash interest on its borrowings for the year ended December 31, 2012.

Contractual Commitments

The Company's contractual commitments at December 31, 2012, are as follows:

	Total ($)	1 year ($)	2-3 years ($)	4-5 years ($)	Thereafter ($)
Term loan	127,500	15,000	112,500	—	—
Revolving facility	45,477	—	45,477	—	—
Operating leases	69,787	13,653	21,958	16,226	17,950
Preferred partnership units	65,500	—	65,500	—	
Interest payments on borrowings	18,532	7,425	11,107	—	—
Finance leases	1,167	911	256	—	—
	327,963	36,989	256,798	16,226	17,950

The Term Loan and Revolving Facility have been presented above in accordance with the repayment schedules with its lenders.

In addition, the Company has a contractual obligation to pay Alaris annual distributions. This amounts is currently $7,020 and increases at a rate of 4% each year. The principal amount grows at 4% annually from the third anniversary from the LifeMark closing on June 9, 2011. Redemption of the preferred partnership units cannot occur until after June 9, 2013. There is no obligation for the Company to redeem these units. Subject to agreements with senior lenders and the availability of financing at a lower interest rate, the Company intends to redeem the preferred partnership units prior to the third anniversary.

The Company incurs interest on its Revolving Facility. Future interest to be paid on the Revolving Facility cannot be reasonably determined due to the ongoing fluctuation of the revolving facility balance.

The Company incurs monthly interest payments on its interest swaps. These interest rate swaps are tied to market conditions and as such interest to be paid from the interest rate swap cannot be reasonably determined.

The Company has $5,000 in convertible debt with a related party and $53,388 in convertible debt from public and private offerings which principal and interest the Company can elect to settle in common shares of the Company.

In the normal course of business, the Company enters into significant commitments for the purchase of goods and services, such as the purchase of inventory, most of which are short-term in nature and are settled under normal trade terms.

Equity

As at December 31, 2012, the Company had total shares outstanding of 144,620,526. The outstanding shares include 23,231,081 shares which are restricted or held in escrow and will be released to certain vendors of acquired businesses based on the achievement of certain performance targets. In the event that performance targets are not met, escrowed shares are subject to reduction based on formulas specific to each transaction. Escrowed shares are not reflected in the shares reported on the Company's financial statements. Accordingly, for financial reporting purposes, the Company reported 121,389,445 common shares outstanding as at December 31, 2012 and 98,220,254 shares outstanding at December 31, 2011.

The period of evaluation for performance targets relating to the LifeMark acquisition concluded on June 30, 2012. On August 15, 2012, the Company agreed to issue 6,875,000 of the LifeMark escrowed shares to the LifeMark vendors as certain performance metrics were achieved as specified in the purchase agreement for this transaction. The remaining 40,000,000 LifeMark escrowed shares were cancelled.

The period of evaluation for performance targets relating to the SSI acquisition concluded on December 31, 2011. SSI achieved certain performance targets and as a result, on February 28, 2012, 10,127,956 shares of the 11,827,956 SSI escrowed shares were released from escrow to the SSI vendors. The remaining 1,700,000 shares in escrow were cancelled. The vendors of SSI did not earn any outperformance warrants.

The second year earn-out period for the vendors of CAR ended on August 31, 2012. Targets were achieved within the operations of CAR which resulted in the Company issuing 714,284 common shares to the vendors of CAR which represents the maximum number of shares available based on the second year performance of this business.

The earn-out period for the vendors of Classic Care ended on November 30, 2012. The Classic Care operations achieved the performance targets as outlined in the purchase agreement for this acquisition and as such the Company issued 2,810,094 escrowed shares and 5,000,000 share purchase warrants to the vendors of Classic Care subsequent to December 31, 2012.

The Company issued 3,597,632 freely tradable common shares to the vendors of acquired businesses for the year ended December 31, 2012.

The Company previously held 600,000 in restricted shares for the Company's former CEO. These restricted shares were cancelled on May 8, 2012. On September 3, 2012, the Company issued 1,000,000 restricted shares to the Company's new CEO that vest over a four year period.

For the year ended December 31, 2012, option holders exercised 687,500 options to purchase an equivalent number of shares at a weighted average exercise price per share of $0.45. As at December 31, 2012, there were a total of 11,224,500 options outstanding to purchase an equivalent number of common shares, with a weighted average exercise price of $1.29, expiring at various dates through 2017. The number of exercisable options at December 31, 2012, was 4,729,875 with a weighted average exercise price of $1.06. In April 2012, the Company granted 1,875,000 stock options and in August 2012, the Company granted 50,000 stock options. In August 2012, the Company also granted 615,000 restricted share units in accordance with the new restricted share unit plan that was approved at the Company's June 2012 Annual General Meeting.

As at December 31, 2012, there were 28,576,590 warrants outstanding. During the year ended December 31, 2012, 4,513,163 warrants were issued in conjunction with the February 2012 public offering and the May 2012 private placement and 782,227 warrants were issued in August 2012 to the Company's new CEO.

Should all outstanding options and warrants that were exercisable at December 31, 2012 be exercised, the Company would receive proceeds of $17,624.

As at the date of this report, March 28, 2013, the number of shares outstanding, including escrowed shares, is 144,620,526; the number of options outstanding is 11,224,500; the number of warrants outstanding is 33,078,390; and the number of restricted share units outstanding is 610,000. Included in the shares outstanding are 18,686,853 restricted shares, shares held in escrow, or in trust, and are not freely tradable.

$000's (except for per share amounts)

Transactions with Related Parties

Related party transactions, in addition to those entered into with Company directors and management, have been entered into with Global Healthcare Investments and Solutions, Inc. ("GHIS") and entities controlled and related to the shareholders of GHIS including Jamon Investments LLC, who own 36,098,976 shares or approximately 25% of the issued and outstanding common shares of the Company as of December 31, 2012. This ownership percentage disclosed assumes the issuance of 23,231,081 escrowed shares in the total common shares considered to be outstanding.

A summary of the transactions with related parties, excluding financing transactions discussed below, for the years ended December 31, 2012 and 2011 is as follows:

	Years ended December 31,	
	2012 **$**	2011 $
GHIS fees:		
Completion fees	**192**	2,090
Financing fees	—	2,800
Advisory fees	**900**	720
Market capitalization fee	—	404
Total fees earned by GHIS in the period	**1,092**	6,014
GHIS travel and related expenses	**184**	128
Interest incurred on related party amounts	**781**	500
	2,057	6,642

On June 30, 2011, GHIS and the Company negotiated and implemented a fixed annual fee of $1,200, to be paid monthly, and completion fees based on 0.5% of the enterprise value for completion of financing, mergers and acquisitions, subject to approval by the Board of Directors.

On March 21, 2013, subject to approval of the shareholders of the Company on May 9, 2013, GHIS and the Company negotiated an amended consulting agreement which eliminates the completion fee, removes the consulting fee for the year ended December 31, 2013, and amends the consulting fee to $75 per month from January 2014 to the completion of the agreement in June 2015. The Company expects to issue an equivalent of $2,150 in common shares of the Company to GHIS based on the five day value weighted average of the Company's share price immediately following the announcement of the Company's 2012 annual results. The total number of common shares to be issued will not exceed 5,000,000 and will be subject to a one year hold period unless the Company's Board of Directors approves an earlier release date. In addition, on March 21, 2013, GHIS waived their consulting fees for the fourth quarter of 2012.

Included in trade and other payables at December 31, 2012 and December 31, 2011 are $4,976 and $4,785, respectively, due to GHIS; and $76 and $226, respectively for interest payable to Jamon. The completion fees of $1,400 from the LifeMark acquisition and the financing fee of $2,800 related to specific 2011 financing activities are only due and payable to GHIS when it meets the conditions set out in the Credit Agreement between the Company and its senior lenders. Any outstanding financing and completion fees which are unpaid bear interest at 8% per annum.

During the year ended December 31, 2012, GHIS exercised 500,000 stock options at an exercise price of $0.50 resulting in proceeds of $250.

At December 31, 2011, GHIS had provided a letter of support to the Company indicating that it will exercise any options or warrants that it holds in the Company or provide alternative funding of similar value, if required, during 2012 in order to assist the Company in managing its liquidity risk. On May 8, 2012, entities controlled by the shareholders of GHIS were participants in a private placement which raised $15,000 which was used to pay down the Company's Term Loan. Of the funds raised, $6,838 was raised from entities controlled by the shareholders of GHIS and $2,040 was raised from directors, officers and other members of the

Company's management team. On May 10, 2012, the Company notified GHIS that their letter of support was no longer required and was terminated.

Directors employed by GHIS do not receive any director's fees except for the Executive Chairman who receives $200 per annum. On March 28, 2013, the Executive Chairman and the Company agreed to amend the director's fee to $150 for the year ended December 31, 2012 and to waive the fee for all future periods.

Related party loan

The Company has a promissory note with Jamon for $5,000 that bears interest at 6% with a conversion feature of one share per one dollar of principal amount and is due November 9, 2013. In addition to the promissory note, Jamon was issued a warrant to purchase 1,000,000 common shares of the Company at an exercise price of $1.00 per share. The warrant expires on November 9, 2013.

During the year ended December 31, 2012, the Company entered into loan agreements with a director and an officer of the Company who were former LifeMark shareholders of $400. These loans bear interest at 3% and are repayable within one year and are included in the Company's trade and other receivables. At December 31, 2012, $272 of this loan has been repaid to the Company.

On August 14, 2012, the Company entered into a promissory note with the Company's CEO for $500 who is a director and officer of the Company. This promissory note bears interest at 4% per annum. The promissory note and related interest will be forgiven by the Company if the CEO is employed with the Company on the maturity date of September 3, 2016. If the CEO resigns prior to September 3, 2016, the promissory note and related interest is repayable on demand. In addition, a private placement for 782,227 common shares at a price of $0.64 and 782,227 warrants at a price of $0.75 was completed with the CEO on August 14, 2012.

On September 3, 2012, the Company issued 1,000,000 restricted shares to the Company's CEO which vest over a four year period.

Off-Balance Sheet Arrangements

As at December 31, 2012, the Company has no off-balance sheet arrangements.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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

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

The Certifying Officers have concluded that, as at December 31, 2012, 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 that ICFR were effective as at December 31, 2012. The Company has limited the scope of its design and operating effectiveness of DC&P and ICFR to exclude controls, policies and procedures of Motion Specialties which were acquired in the twelve month period ended December 31, 2012. This acquired company represent approximately 19% of the Company's revenues for the year ended December 31, 2012. The Company used the COSO control framework to evaluate DC&P and ICFR.

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

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes in line with International Financial Reporting Standards. Management is responsible for establishing and maintaining adequate 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.

There have been no significant changes to the Company's ICFR over the three month period ended December 31, 2012, which has materially affected, or is reasonably likely to materially affect the Company's ICFR. During the third quarter of 2012, the Company established of an internal audit department which is focusing on financial and operational audits throughout the organization.

Critical Accounting Estimates and Judgments

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

Significant critical accounting estimates include the collectability of receivables, assessment of impairment of goodwill and intangible assets and the recognition of contingent consideration.

Collectability of receivables

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

Goodwill and Intangible Assets Valuation

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

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

The Company tests the valuation of goodwill and indefinite life intangibles as at 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 the indefinite life intangible assets as at December 31, 2012 and December 31, 2011 other than the impairment of its hospital license recognized on transition to IFRS. The Company completed its annual impairment test at December 31, 2012 and a goodwill impairment of $20,688 was recognized for the year ended December 31, 2012. The Company completed a reconciliation between their market capitalization and the fair value of their CGUs in order to confirm the conclusion reached. The Company also recognized an impairment of $1,333 for the year ended December 31, 2012 for the remaining value of the BWC trademark which the Company is no longer using in 2013. The Company recognized impairments of $3,100 for the Classic Care trademark and $2,200 for the Motion Specialties trademarks as these trademarks have a shorter useful life to the Company as a result of the Company's rebranding strategy over the coming years. The Company recognized impairments at December 31, 2011 of a definite life intangible asset related to its acquired prescription files and an impairment of its goodwill related to the LifeMark acquisition.

Recognition of Contingent Consideration

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

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

Subsequent changes in fair value between reporting periods are included in the determination of net income. Changes in fair value arise as a result of changes in the Company's share price which is discounted to reflect that the shares are not freely tradable until they are released from escrow and changes in the estimated probability of achieving the earnings targets. Shares issued or released from escrow in final settlement of contingent consideration are recognized at their fair value at the time of issue with a corresponding reduction in the contingent consideration liability.

Valuation of Deferred Tax Assets

In assessing the realization of deferred tax assets, the Company considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the period in which those temporary losses and tax loss carryforwards become deductible. The Company considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company believes that the use of these deductible differences is probable, except for an unrecognized deferred tax asset of $3,500 which the Company has not recorded for the year ended December 31, 2012 in respect of certain non-capital losses.

Accounting Changes

The Company did not adopt any changes in accounting policies for the year ended December 31, 2012. The Company's accounting policies are disclosed in note 1 of the annual consolidated financial statements for the years ended December 31, 2012 and 2011.

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).

Competition

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

Other than relationships the Company has built up with insurance companies, healthcare providers and patients, there is little to prevent the entrance of those wishing to provide similar services to those provided by Centric and its subsidiaries. The businesses operating in the physiotherapy and assessments segment 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 healthcare professionals. There can be no assurance that Centric 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 tariff decisions play a key role. Changes in regulation and tariff 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, affected the business as the assessments segment operates within the regulatory jurisdiction of these legislative changes. Auto insurance guidelines for accident benefit claims have changed and fees for independent medical assessments and rehabilitative treatments are now capped. This change may negatively affect the future financial results of this segment. To mitigate any negative impact, the assessment segment has expended resources to diversify offerings and expand its customer base to best capture the optimal sales mix in the marketplace.

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

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 workers compensation boards, government agencies, employers, insurance companies and patients.

Acquisitions and Integration

The Company expects 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's assessments segment is currently dependent upon insurance company referrals of patients for assessment and rehabilitation procedures and treatments. 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, in the Surgical and Medical Centres segment, 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 surgical centres. Should surgical practitioners discontinue referring patients or performing operations at the surgical centres, the business, financial condition and results of operations of Centric could be adversely affected.

Shortage of Healthcare Professionals

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

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

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.

The current borrowings of the Company are secured by its lender by a general security agreement over substantially all of the assets of the Company. Should the Company not meet its covenants or obligations under these borrowing agreements when due, there is the risk that its lender may realize on its security and liquidate the assets of the Company.

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

From time to time the Company is involved in litigation, investigations or proceedings related to claims arising out of its operations in the ordinary course of business. In the opinion of the Company, these claims and lawsuits in the aggregate, when settled are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Proposed Transactions

In September 2012, the Company announced the planned acquisition of certain assets of Shouldice Hospital Limited, subject to the completion of due diligence and approval from the Ontario Ministry of Health. On November 2, 2012, the Company announced that the period for finalizing an agreement had lapsed and that the acquisition would no longer be completed.

Please see subsequent events for other proposed transactions.

Subsequent Events

On February 13, 2013, the Company announced that Daniel Gagnon was appointed as the Chief Financial Officer of the Company.

On February 22, 2013, the Company appointed Yazdi Bharucha as an independent member of the Board of Directors and as chair of the Company's audit committee.

On March 7, 2012, the Company announced that Chris Dennis was appointed as the Chief Operating Officer of the Company effective April 8, 2013.

On March 21, 2013, the Company amended its lending agreement with its senior lenders. As part of this amended lending agreement, the Company amended certain financial performance covenants for the March 31, 2013 and June 30, 2013 measurement dates.

On March 21, 2013, subject to approval of the shareholders of the Company on May 9, 2013, GHIS and the Company negotiated an amended consulting agreement which eliminates the completion fee, removes the consulting fee for the year ended December 31, 2013, and amends the consulting fee to $75 per month from January 2014 to the completion of the agreement in June 2015. The Company expects to issue an equivalent of $2,150 in common shares of the Company to GHIS based on the five day value weighted average of the Company's share price immediately following the announcement of the Company's 2012 annual results. The total number of common shares to be issued will not exceed 5,000,000 and will be subject to a one year hold period unless the Company's Board of Directors approves an earlier release date. In addition, on March 21, 2013, GHIS waived their consulting fees for the fourth quarter of 2012.

On March 26, 2013, the Company announced that Jim Black was appointed as the Chief Information Officer of the Company effective April 8, 2013.

Additional Information

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

Centric Health
Your Care. Our Focus.

Consolidated Financial Statements
For the Years ended December 31, 2012 and 2011

(in thousands of Canadian dollars)

Dated: March 28, 2013

Index

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Centric Health Corporation for the years ended December 31, 2012 and 2011 were prepared by management in accordance with International Financial Reporting Standards, as set out in Part I of the Handbook of The Canadian Institute of Chartered Accountants. 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 1 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 auditor's 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.

"David Cutler"

Chief Executive Officer

"Daniel Gagnon"

Chief Financial Officer

March 28, 2013

March 28, 2013

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 statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of income and comprehensive income, equity and cash flows for the years ended December 31, 2012 and December 31, 2011 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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 International Financial Reporting Standards, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

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, 2012 and December 31, 2011 and their financial performance and their cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

Centric Health Corporation
Consolidated Statements of Financial Position

(in thousands of Canadian dollars)	**December 31, 2012**	December 31, 2011
	$	$
Assets		
Current assets		
Cash and cash equivalents	**594**	407
Trade and other receivables (note 19)	**58,325**	40,495
Inventories (note 6)	**26,964**	5,257
Income taxes recoverable	**187**	—
Prepaid expenses and deposit	**2,258**	2,244
	88,328	48,403
Non-current assets		
Property and equipment (note 9)	**25,002**	20,586
Goodwill and intangible assets (note 10)	**353,720**	362,113
Deferred income tax assets (note 14)	**18,285**	4,408
Loans receivable (note 5)	**444**	973
Investments in franchisees (note 5)	**208**	208
Total assets	**485,987**	436,691
Liabilities		
Current liabilities		
Trade payables and other amounts (notes 16, 17 and 19)	**66,186**	44,760
Current portion of borrowings (note 11)	**19,576**	175,911
Current portion of finance lease liabilities (note 13)	**911**	2,068
Current portion of contingent consideration (note 8)	**5,389**	63,009
Income taxes payable	**—**	1,801
	92,062	287,549
Non-current liabilities		
Borrowings (note 11)	**184,612**	8,466
Preferred partnership units (note 12)	**65,500**	65,500
Contingent consideration (note 8)	**11,580**	5,840
Finance lease liabilities (note 13)	**256**	279
Deferred income tax liabilities (note 14)	**26,932**	4,894
Deferred lease incentives	**1,472**	358
Derivative liability portion of convertible borrowings (note 11)	**8,409**	1,603
Derivative financial instruments (note 11)	**823**	1,812
Total liabilities	**391,646**	376,301
Equity		
Share capital (note 18)	**92,201**	62,525
Warrants	**6,256**	4,593
Contributed surplus	**7,928**	4,259
Equity portion of convertible borrowings (note 18)	**6,498**	843
Accumulated other comprehensive income (loss)	**201**	(73)
Retained deficit	**(19,496)**	(12,238)
Equity attributable to shareholders of Centric Health Corporation	**93,588**	59,909
Non-controlling interests	**753**	481
Total equity	**94,341**	60,390
Total liabilities and equity	**485,987**	436,691

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

Approved by the Board

"Dr. Jack Shevel"
Dr. Jack Shevel, Director

"Yazdi Bharucha"
Yazdi Bharucha, Director

Centric Health Corporation
Consolidated Statements of Income and Comprehensive Income
(in thousands of Canadian dollars, except per share amounts)

	For the years ended December 31,	
	2012	2011
	$	$
Revenue	**436,651**	200,992
Cost of healthcare services and supplies	**221,056**	112,836
General and administrative expenses (notes 4 and 17)	**213,442**	84,507
Transaction and restructuring costs (note 7)	**11,422**	8,181
Loss from operations	**(9,269)**	(4,532)
Interest expense (note 15)	**24,350**	12,245
Change in fair value of derivative financial instruments (note 11)	**(1,947)**	1,396
Change in fair value of contingent consideration liability (note 8)	**(51,164)**	(60,078)
Impairments (notes 5 and 10)	**27,421**	52,801
Loss before income taxes	**(7,929)**	(10,896)
Income tax recovery (note 14)	**(841)**	(1,918)
Net loss	**(7,088)**	(8,978)
Amortization of deferred (gain) loss on interest rate swaps	**(40)**	61
Change in fair value of interest rate swaps designated as hedges (note 11)	**314**	(73)
Comprehensive loss	**(7,362)**	(8,966)
Net (loss) income attributable to:		
Shareholders of Centric Health Corporation	**(7,258)**	(8,982)
Non-controlling interests	**170**	4
Comprehensive (loss) income attributable to:		
Shareholders of Centric Health Corporation	**(7,532)**	(8,970)
Non-controlling interests	**170**	4
Basic loss per common share	**($0.06)**	($0.11)
Diluted loss per common share	**($0.06)**	($0.11)
Weighted average number of common shares outstanding (in thousands) (note 18)		
Basic	**114,140**	80,656
Diluted	**154,070**	102,491

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

Centric Health Corporation
Consolidated Statements of Equity
(in thousands of Canadian dollars, except number of shares)

	Number of shares[1]	Amount $	Warrants $	Contributed surplus $	Equity portion of convertible borrowings $	AOCI[2] $	Retained earnings (deficit) $	Equity attributable to the shareholders of Centric Health Corporation $	Non-controlling interest $	Total $
Balance at December 31, 2010	**62,090,095**	**9,240**	**3,246**	**1,839**	**843**	**(61)**	**4,969**	**20,076**	**—**	**20,076**
Options exercised	712,500	484	—	(203)	—	—	—	281	—	281
Public offerings	1,283,000	1,822	1,050		—			2,872		2,872
Warrants exercised	40,000	75	(24)	—	—	—	—	51	—	51
Shares issued on acquisition	12,154,659	22,047	—	—	—	—	—	22,047	—	22,047
Private placement	17,940,000	20,092	321	—	—	—	—	20,413	—	20,413
Issuance of shares on acquisition of GHIS Capital	3,500,000	8,225	—	—	—	—	—	8,225	—	8,225
AHP warrants cancellation	—	—	—	—	—	—	(8,225)	(8,225)	—	(8,225)
Change in fair value of interest rate swap	—	—	—	—	—	(73)		(73)		(73)
Amortization of deferred loss on interest rate swap	—	—	—	—	—	61	—	61	—	61
Deferred compensation expense	500,000	540	—	2,623	—	—	—	3,163	—	3,163
Non-controlling interest from acquisition	—	—	—	—	—	—	—	—	477	477
Net loss (income) for the year	—	—	—	—	—	—	(8,982)	(8,982)	4	(8,978)
Balance at December 31, 2011	**98,220,254**	**62,525**	**4,593**	**4,259**	**843**	**(73)**	**(12,238)**	**59,909**	**481**	**60,390**
Options exercised	687,500	482	—	(173)	—	—	—	309	—	309
Offerings	463,163	581	1,624	—	5,655	—	—	7,860	—	7,860
Shares issued on acquisition	3,597,632	6,140	—	—	—	—	—	6,140	—	6,140
Shares released from the escrow or issued as contingent consideration	17,788,669	21,930	—	—	—	—	—	21,930	—	21,930
Issuance of common shares	450,000	482	—	—	—	—	—	482	—	482
Change in fair value of interest rate swaps	—	—	—	—	—	314	—	314	—	314
Amortization of deferred gain on interest rate swap	—	—	—	—	—	(40)	—	(40)	—	(40)
Deferred compensation expense	782,227	61	39	4,219	—	—	—	4,319	—	4,319
Cancellation of restricted shares	(600,000)	—	—	(337)	—	—	—	(337)	—	(337)
Cash settlement of restricted share units	—	—	—	(40)	—	—	—	(40)	—	(40)
Non-controlling interest purchase price allocation adjustment	—	—	—	—	—	—	—	—	290	290
Payments to non-controlling interests	—	—	—	—	—	—	—	—	(188)	(188)
Net (loss) income for the year	—	—	—	—	—	—	(7,258)	(7,258)	170	(7,088)
Balance at December 31, 2012	**121,389,445**	**92,201**	**6,256**	**7,928**	**6,498**	**201**	**(19,496)**	**93,588**	**753**	**94,341**

[1] Excludes 23,231,081 of contingent shares held in escrow and restricted shares at December 31, 2012 (note 18).

[2] AOCI – Accumulated other comprehensive income (loss)

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

Centric Health Corporation
Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

	For the years ended December 31,	
	2012	2011
	$	$
Cash provided by (used in):		
Operating activities		
Net loss for the year	**(7,088)**	(8,978)
Adjustments for:		
Interest expense	**24,350**	12,245
Change in fair value of derivative financial instruments	**(1,947)**	1,396
Amortization of deferred (gain) loss on interest rate swap	**(40)**	61
Loss on disposal of property and equipment	**432**	—
Depreciation of property and equipment	**7,101**	3,103
Amortization of finite-life intangible assets	**28,340**	11,470
Amortization of lease incentives	**342**	(25)
Leasehold inducements	**668**	—
Income taxes paid	**(5,956)**	(2,051)
Income tax recovery	**(841)**	(1,918)
Stock-based compensation expense	**4,464**	3,163
Impairments	**27,421**	52,801
Change in the fair value of contingent consideration liability	**(51,164)**	(60,078)
Net change in non-cash working capital items (note 23)	**(10,768)**	(3,591)
Cash provided by operating activities	**15,314**	7,598
Investing activities		
Purchase of intangible assets	**(512)**	(292)
Purchase of property and equipment	**(7,928)**	(4,139)
Acquisition of businesses (note 7)	**(19,492)**	(138,097)
Payment of contingent consideration (note 8)	**(1,581)**	—
Payments to non-controlling interests	**(188)**	—
Decrease in loans receivable from franchisees	**429**	545
Deposit	—	1,266
Loan advances	—	(359)
Cash used in investing activities	**(29,272)**	(141,076)
Financing activities		
Interest paid	**(19,432)**	(8,818)
Repayment of borrowings	**(27,500)**	(75,965)
Proceeds from term loan and revolver, net of loan arrangement costs	**18,589**	180,975
Repayment of finance leases	**(1,443)**	(1,375)
Issuance of common shares, warrants and convertible debt, net of issuance costs	**43,931**	29,858
Cash provided by financing activities	**14,145**	124,675
Increase (decrease) in cash and cash equivalents	**187**	(8,803)
Cash and cash equivalents, beginning of year	**407**	9,210
Cash and cash equivalents, end of year	**594**	407

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

1. Significant Accounting Policies

Centric Health Corporation and its subsidiaries (collectively, "Centric Health", or, "the Company") are incorporated under the *Canada Business Corporations Act*. The Company is listed on the Toronto Stock Exchange and is incorporated and domiciled in Canada. The Company's principal business is providing healthcare services to its patients and customers in Canada. The address of the Company's registered office is 20 Eglinton Avenue West, Suite 2100, Toronto, Ontario.

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as outlined by Canadian generally accepted accounting principles ("GAAP"), as set out in Part I of the Handbook of The Canadian Institute of Chartered Accountants ("CICA Handbook").

Statement of Compliance: These annual consolidated financial statements have been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. The policies applied in these annual consolidated financial statements are based on IFRS effective for the year ended December 31, 2012. These financial statements were approved by the Board of Directors on March 28, 2013.

The significant accounting policies used in the preparation of these annual consolidated financial statements are described below. These policies have been consistently applied to all periods presented.

Basis of measurement

These annual consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of derivative financial instruments and contingent consideration to fair value.

Consolidation

These annual consolidated financial statements incorporate the assets and liabilities of Centric Health and its wholly-owned subsidiaries and the results of these subsidiaries for the years then ended. The Company also consolidates the financial results of London Scoping Centre ("LSC") and Performance Medical Group ("Performance") which the Company controls with an ownership of 75% of the outstanding shares of each of these entities.

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated.

1. Significant Accounting Policies - continued

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any liabilities resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interests in the acquiree on an acquisition-by-acquisition basis, at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

Intercompany transactions, balances, income and expenses on transactions between the Company's subsidiaries are eliminated. Profit and losses resulting from intercompany transactions that are recognized in assets are also eliminated.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Chief Executive Officer (“CEO”).

Foreign currency translation

Balances included in the annual consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Company's functional and presentation currency is the Canadian dollar, which is also the functional currency of each of the Company's subsidiaries.

Financial assets and financial liabilities

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from these assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the requirements to provide cash flows from these liabilities have expired or have been transferred and the Company no longer has an obligation to settle with a counterparty.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instrument was acquired:

1. Significant Accounting Policies - continued

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, trade and other receivables, and loans receivable, and are included in current assets when due in less than one year. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less the provisions for impairment losses.

Financial liabilities at fair value through profit or loss
Financial instruments at fair value through profit or loss are financial liabilities held for trading. Derivative financial instruments are categorized as held for trading unless they are designated as hedges. The Company's financial liabilities at fair value through profit or loss include the derivative financial instrument for contingent consideration liabilities, the derivative liability portion of convertible borrowings and interest rate swaps for which hedge accounting has not been applied. Liabilities in this category are classified as current liabilities if expected to be settled within twelve months; otherwise, they are classified as non-current liabilities.

Financial liabilities at amortized cost
Financial liabilities at amortized cost include trade and other payables, finance lease liabilities, borrowings and Preferred Partnership Units. Trade and other payables are initially recorded at the amount required to be paid. Borrowings, finance lease liability and other liabilities are initially recognized at fair value, net of any transaction costs incurred, and, subsequently, at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months; otherwise, they are presented as non-current liabilities.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment is recognized in the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held with banks.

1. Significant Accounting Policies - continued

Trade and other receivables

Trade and other receivables are amounts due for goods and services sold in the ordinary course of business. If collection is expected in twelve months or less, trade and other receivables are classified as current assets. If not, trade and other receivables are presented as non-current assets. Trade and other receivables are initially recognized at fair value and, subsequently, are measured at amortized cost using the effective interest method, less a provision for impairment.

Trade and other receivables also include accrued receivables which are amounts for services rendered and not yet invoiced or billed to customers. Accrued receivables are included in trade and other receivables and are initially recognized at fair value and, subsequently, are measured at amortized cost using the effective interest method, less a provision for impairment.

A provision for impairment involves significant management judgment and includes the review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts.

Inventories

Inventories consist of materials used in the provision of healthcare services, home medical equipment and pharmaceutical inventory and are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. A provision for impairment involves significant management judgment and includes the review of inventory aging and an assessment of recoverability.

Investments in franchisees

Investments in franchisees are recorded on the equity basis of accounting as the Company exercises significant influence over the franchisees.

Derivative financial instruments

Derivative financial instruments designated as a hedge
The Company holds derivative financial instruments to hedge its interest rate risk exposure. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment both at inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting changes in the cash flows of the respective hedged items during the period for which the hedge is designated and whether the actual results of each hedge are within a range of 80-125 percent. Where hedge accounting has been applied, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented as unrealized gain or loss on cash flow hedges in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flow affects profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

Other derivative financial instruments
When a derivative financial instrument is not designated as a qualified hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

1. Significant Accounting Policies - continued

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the period in which they are incurred.

The major categories of property and equipment are depreciated as follows:

Office furniture, fixtures and equipment	5 to 10 years straight-line
Computer equipment	30% declining balance
Medical equipment	5 years straight-line
Physiotherapy equipment	30% declining balance
Leasehold improvements	remaining term of the lease

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and separately depreciates each part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted, if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of income from operations in the consolidated statement of comprehensive income.

Leased assets
Assets under finance leases, to which substantially all of the risks and benefits inherent in ownership are transferred, are recognized as part of property and equipment. These assets are initially measured at fair value or, if lower, at the present value of the minimum lease payments. A corresponding liability is established and each lease payment is allocated between the liability and interest expense using the effective interest method. The assets recognized are depreciated over the lease term.

Leases that are not finance leases are classified as operating leases and the assets are not recognized on the consolidated statement of financial position. Operating lease payments are recognized as an expense on a straight-line basis over the term of the lease.

1. Significant Accounting Policies - continued

Intangible assets

Finite Life Intangible Assets
The Company's finite life intangible assets include licences, computer software, contracts, franchise rights, customer and physician relationships, trademarks and non-competition arrangements with a finite useful life. These assets are capitalized and amortized on a straight-line basis in the consolidated statement of comprehensive income as follows:

Licences	Term of the licence
Computer software	7 years
Contracts	Term of the contract
Customer and physician relationships	5 to 10 years
Trademarks	Up to 10 years
Non-compete arrangements	Term of the arrangement
Franchise Rights	20 years

The Company incurs costs associated with the design of new technology related to the software used in the operations of the Company's business. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use the technology, are met; otherwise, they are expensed as incurred.

Goodwill
Goodwill represents the excess of the consideration transferred over the fair value of the net tangible and intangible assets acquired at the date of acquisition of a business. The Company assesses at least annually, or whenever an indicator of impairment exists, whether there has been an impairment loss in the carrying amount of goodwill, which is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units (CGUs), or group of CGUs, that are expected to benefit from the business combination for the purpose of impairment testing. A group of CGUs represents the lowest level within the Company that is not higher than an operating segment at which goodwill is monitored for internal management purposes. The methodology used by the Company to test goodwill for impairment is further discussed in note 10.

Indefinite-life intangible assets
The Company has indefinite-life intangible assets in relation to its hospital licence, government billing privilege, sleep clinic licence and the Community Care Access Centre (“CCAC”) contract. The Company tests indefinite-life intangible assets for impairment annually. The hospital license allows the Don Mills Surgical Unit (“DMSU”) to privately operate a hospital in the province of Ontario. Government billing privileges are assets that facilitate the billing of provincially insured physiotherapy services to the government. The CCAC refers patients for occupational therapy, dietetics and social work services. The CCAC contract has a stated term that is renewed by the CCAC. The Company considers the probability of renewal of the contract with CCAC to be high.

1. Significant Accounting Policies - continued

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Other long-term tangible and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognized in the consolidated statement of comprehensive income. The recoverable amount of an asset is the higher of its fair value, less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows.

Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Borrowings

Borrowings are initially recognized at fair value, net of any transaction costs. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for more than twelve months. After initial recognition, borrowings are carried at amortized cost with any difference between the proceeds (net of transaction costs) and the redemption value recognized in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest method.

Convertible borrowings
Convertible borrowings held by the Company are borrowings that can be converted to common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of the convertible borrowings is recognized initially at the fair value of a similar liability that does not have a conversion option. An equity component is recognized initially for the conversion feature when the conversion of the borrowing instrument can only be settled in shares of the Company. This conversion feature is valued at the difference between the fair value of the convertible borrowings as a whole and the fair value of the liability component. Where either the holder or the Company has the right to settle the convertible borrowing in cash, the Company classifies the conversion feature as a derivative liability. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible borrowings is measured at amortized cost using the effective interest method. The equity component of a convertible financial instrument is not remeasured subsequent to initial recognition, except on conversion or expiry. The derivative liability component of a convertible financial instrument is remeasured subsequent to initial recognition based on its estimated fair market value.

1. Significant Accounting Policies - continued

Recognition of contingent consideration

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

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

Share-based contingent consideration consisting of the Company's shares and warrants to be released from escrow or issued based on the acquired businesses achieving predetermined earnings targets is estimated at the date of acquisition taking into consideration the quoted market prices of the Company's common shares at the dates of acquisition discounted to reflect that the shares are not freely tradable until they are released from escrow and the probability of achieving the earnings targets. Subsequent changes in fair value between reporting periods are included in the determination of net income. Changes in fair value arise as a result of changes in the Company's share price and changes in the estimated probability of the acquired entities achieving their earnings targets. Shares issued or released from escrow in the final settlement of contingent consideration are recognized in share capital at their fair value at the time of issue or release with a corresponding reduction in the contingent consideration liability. The current portion of contingent consideration is based on the Company's estimate of the value that will be payable within twelve months.

Employee benefits

Termination benefits
The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing benefits as a result of an offer made to encourage voluntary termination. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

Income taxes

Income tax expense for the year comprises current and deferred income taxes. Income taxes are recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the income taxes are also recognized directly in comprehensive income or equity.

Current income taxes
Current income tax expense is based on the results of the year, as adjusted for items that are not taxable or not deductible. Current income taxes are calculated using tax rates and laws that were substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established, where appropriate, on the basis of amounts expected to be paid to the taxation authorities.

1. Significant Accounting Policies - continued

Deferred income taxes
Deferred income taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the date of the consolidated statement of financial position and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent it is probable that the assets can be recovered.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and associates except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis. Deferred income tax assets and liabilities are presented as non-current assets or liabilities.

Revenue

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 costs incurred relating to the completed assessments are included in trade and other payables. Other services, such as work conditioning treatments and case management services, are billed when these services are rendered, the price is fixed or determinable and collection is reasonably assured.

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

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

Revenue from member clinics referred through the Company is recognized when the service has been provided.

Revenue for physiotherapy and rehabilitation services performed for insurance providers or other private clients is recognized when services are rendered and collectability is reasonably assured.

Royalty revenue is recognized on a monthly basis as the relevant royalty sales are reported by franchisees.

Revenue for home medical equipment corporate stores and orthotics is recognized when the products or services are delivered to customers and title has passed or when the service is rendered and collectability is reasonably assured.

Government funding from the Ontario 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. Amounts are deemed receivable based on the terms of the funding agreement with 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.

1. Significant Accounting Policies - continued

Cost of healthcare services and supplies

Cost of healthcare services and supplies includes the cost of medical and healthcare practitioner consultant services provided, supplies used in rendering healthcare services, and the cost of medical equipment and pharmaceutical products sold. These costs exclude any corporate or administrative costs incurred by the Company.

Share-based payments

The Company operates an equity-settled, share-based payment compensation plan, under which the Company receives services from employees as consideration for equity instruments of the Company. The plan is also open to certain directors and employees of the Company. Share options vest over three to four years and expire after five years. The fair value of services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions.

The fair value of share options is estimated using the Black-Scholes option pricing model. This model requires the input of a number of assumptions, including expected dividend yield, expected share price volatility, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on conditions outside of the Company's control. Changes in these assumptions could significantly impact the valuation of the share-based payment expense.

The contributed surplus within shareholders' equity is reduced as the share options are exercised. If the share options are exercised, the amount initially recorded for the share options in contributed surplus is credited to common shares, along with the proceeds received on the exercise. If the share options expire unexercised or are forfeited, the amount initially recorded for the share options remains in contributed surplus.

Restricted share units

The Company operates a restricted share unit plan, under which the Company receives services from employees as consideration for equity instruments of the Company. The plan is also open to certain directors of the Company. Restricted share units vest over three years. The fair value of services received in exchange for the grant of the restricted share units is recognized as a share-based payment expense. The total amount to be expensed is determined by reference to the fair value of the restricted share units granted.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting date, the Company revises its estimates of the number of restricted share units that are expected to vest based on the non-market vesting conditions. The fair value of restricted share units is estimated using the Company's quoted market price on the grant date.

1. Significant Accounting Policies - continued

Share capital and warrants

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Warrants are classified as equity and are initially measured at fair value. The fair value of the warrants is not remeasured and the warrants are transferred to common shares when they are exercised based on the terms of each individual agreement. If warrants expire unexercised, the amount initially recorded is transferred to contributed surplus.

Loss per share

Basic loss per share ("EPS") is calculated by dividing the net loss for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive instruments comprise share options granted to employees, unvested restricted share units, convertible debt and warrants.

Accounting standards issued but not yet adopted

IFRS Standard 7, *Financial Instruments: Disclosures ("IFRS 7")* has been amended to establish disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position.

IFRS Standard 10, *Consolidated Financial Statements* ("IFRS 10") will replace portions of *IAS 27 Consolidated and Separate Financial Statements and interpretation SIC-1 Consolidation - Special Purpose Entities.* IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statement. The standard provides additional guidance to assist in determining control where this is difficult to assess.

IFRS Standard 12, *Disclosure of Involvement with Other Entities* ("IFRS 12") includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements.

IFRS Standard 13 *Fair Value Measurement and Disclosure* ("IFRS 13") is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards.

IAS 1 *Presentation of items of other comprehensive Income* ("IAS 1") has been amended to change the disclosure of items presented in other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit and loss in the future.

IAS 19 *Employee Benefits* is amended to reflect (i) significant changes to recognition and measurement of defined benefit pension expense and termination benefits, and (ii) expanded disclosure requirements.

IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") is a consequence of the issue of IFRS 10, IFRS 11, IFRS 12 and IFRS 13, IAS 28 has been amended and will provide the accounting guidance for investments and associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

1. Significant Accounting Policies - continued

These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will adopt these standards (and amended standards) when they become effective. The Company has not currently assessed the impact of adopting these standards.

IAS 32 *Financial Instruments: Presentation ("IAS 32")* has been amended to clarify the application of offsetting requirements of financial assets and financial liabilities. The amendments to IAS 32 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company has currently not assessed the impact of adopting this amended standard.

IFRS Standard 9, *Financial Instruments* ("IFRS 9"), was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, *Financial Instruments - Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories, amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company will adopt this standard when it becomes effective. The Company has not currently assessed the impact of adopting this standard.

Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning its financial future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

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

Impairment testing of goodwill and indefinite-life intangible assets
The Company tests annually whether goodwill or indefinite-life intangible assets have suffered any impairment, in accordance with the requirements of IAS 36 *Impairment of Assets*. The recoverable amounts of CGU's have been determined based on their fair value less cost to sell. These calculations require the use of estimates.

Recognition of contingent consideration
In certain acquisitions, the Company may include contingent consideration which is subject to the acquired company achieving certain performance targets. At each reporting the period, the Company estimates the future earnings of acquired companies which are subject to contingent consideration in order to assess the probability that the acquired company will achieve their performance targets and thus earn their contingent consideration. Any changes in the fair value of the contingent consideration between reporting periods are included in the determination of net income. Changes in fair value arise as a result of changes in the Company's share price and changes in the estimated probability of the acquired company achieving their earnings targets.

1. Significant Accounting Policies - continued

Valuation of deferred tax assets and tax provisions
In assessing the realization of deferred tax assets, the Company considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the period in which those temporary losses and tax loss carryforwards become deductible. The Company considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment.

The Company assesses any potential tax uncertainties at each reporting period in order to assess whether any provisions are required for these uncertainties.

2. Liquidity Risk

In addition to the cash flow generated by operations, the Company relies on debt and equity financing from both arm's length and related parties to execute on its stated business strategy. The Company 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 3.

The Company is subject to certain financial covenants under its Term Loan and Revolving Facility. Early in 2012 the Company and its lenders made several amendments to its financial performance covenants. The Company's operating performance in 2012 did not meet the Company's approved budget. In addition, reductions to the Term Loan and Revolving Facility through 2012 debt and equity offerings totaling approximately $40,900 and working capital management did not reduce debt levels enough to compensate for the lower operating performance. As a result, the Company and its senior lenders amended certain financial performance covenants for the December 31, 2012 measurement date in order to ensure compliance.

As described in note 11, the Company and its lenders have made further amendments to its financial performance covenants in the first and second quarters of 2013 based on actual results for 2012 and a risk downgraded operating budget for 2013. The Company's repayment schedule has not been amended as a result of not meeting certain financial performance covenants in 2012 or as a result of these lending agreement amendments.

The Company anticipates that, based on meeting its 2013 operating budget, it will generate sufficient cash flow from operations in 2013 to meet its obligations as they come due. The financial performance covenant amendments for the first and second quarters of 2013 were necessary due to the Company's 2012 results not meeting the approved budget. To meet the revised and existing 2013 financial performance covenants the Company will be required to achieve a risk downgraded 2013 operating budget which reflects an improvement over the Company's actual performance in 2012. There can be no assurance that the Company will be successful in achieving the results as set out in its operating plan.

Based on existing cash flow, overall debt levels and the need to focus on operational performance improvements, the Company is considering alternative lending arrangements to replace the existing Term Loan and Revolving Facility. While alternative arrangements may come at a higher interest cost, their terms would likely provide greater financial flexibility with less onerous financial performance covenants. The Company's focus in 2013 will be on improving operating performance and more fully integrating 2011 and 2012 acquisitions. Without 2013 performance to the Company's plans, additional equity contributions or a refinancing arrangement, the Company may not meet certain financial performance covenants in 2013 under its Term Loan and Revolving Facility. In this circumstance, the Company will be dependent on the continued support of its senior lenders.

2. Liquidity Risk - continued

The Company's ability to meet its obligations is dependent on generating operating cash flows and securing long-term financing which may include further financial performance covenant revisions. The Company is considering various alternatives, as described above, to ensure continued compliance with its lending agreements. It is not possible to determine with certainty the success or adequacy of these initiatives.

3. 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, warrants and the stock option component of its shareholders' equity as well as its Term and Revolving Credit facilities, convertible debt, preferred partnership units and contingent consideration. In addition to the cash flow generated by operations, the Company relies on debt and equity financing from both arm's length and related parties to execute on its stated business strategy. In order to maintain or adjust its capital structure, the Company may seek additional financing through the issuance of new debt or equity securities, or by replacing existing debt with debt on terms more consistent with the Company's needs.

The Company forecasts cash flows for its current and subsequent fiscal years to project future financial requirements. In advance of changes in the Company's capital requirements in 2012 and 2013, on October 21, 2011, the Company filed a base shelf prospectus. The base shelf prospectus provides for the Company to raise new capital through the issuance of up to $265,500 in convertible debt securities, common shares and share purchase warrants.

The Company completed prospectus supplements under this base shelf prospectus or private placements as follows:

- in the fourth quarter of 2011 and the first quarter of 2012, the Company completed a prospectus supplement for the issuance of units for gross proceeds of $13,610;
- in May 2012, the Company completed a private placement of $15,000 of subordinated, unsecured convertible notes; and
- in September 2012, the Company completed a prospectus supplement for the issuance of convertible notes for gross proceeds of $27,500.

The net proceeds from these financings have been used to reduce the Company's Term Loan and Revolving Facility.

The Company is subject to certain financial performance covenants as part of its lending agreement. Certain amendments have been made to the lending agreement during 2012 and in the first quarter of 2013 as discussed in note 11. Most of these amendments related to revisions, amendments or waivers associated with compliance with financial performance covenants arising from a shortfall in 2012 actual operating results from the Company's approved budget. The liquidity risks associated with the Company's financing and the Company's related plans and actions are discussed in note 2.

(in thousands of Canadian dollars)

4. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	December 31, 2012	December 31, 2011
	$	$
Employee costs	**96,425**	32,340
Other operating expenses	**60,666**	23,147
Corporate office expenses	**16,014**	11,284
Depreciation and amortization	**35,441**	14,573
Stock-based compensation expense	**4,464**	3,163
Loss on disposal of property and equipment	**432**	—
	213,442	84,507

5. Loans Receivable and Investments in Franchisees

The Company’s loans receivable balance consists of the following:

	December 31, 2012	December 31, 2011
	$	$
Loan to PrevCan Inc.	**—**	100
Loans to franchisees	**444**	873
	444	973

PrevCan Inc.

On May 17, 2010, the Company entered into an agreement with PrevCan Inc. 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 were originally due on May 11, 2011 payable at PrevCan Inc.'s option in either cash or shares in PrevCan Inc, representing a 50% fully diluted interest. The loan was extended to January 31, 2012. At December 31, 2011 the Company recorded a provision of $2,089 against this loan receivable and related interest resulting in a carrying value of $100. The loan receivable portion of the impairment is $1,929 and the interest portion of the impairment is $160. At December 31, 2012, the Company recorded an impairment of $100 for the remaining value of the loan to PrevCan Inc. as the Company does not feel that this loan will be recoverable.

Franchisees

Loans receivable from franchisees of $444 (December 31, 2011 - $873) are related to the MediChair Ltd. (“MediChair”) home medical equipment operations. MediChair has various loan agreements with its franchisees. These loans have negotiated repayment terms from 1 to 4 years and interest rates of approximately 2% per month. The majority of these loans are secured by personal guarantees over the franchisees' assets.

(in thousands of Canadian dollars)

5. Loans Receivable and Investments in Franchisees - continued

The Company has investments in three franchisees. The acquired interests in these franchisees is $208 (December 31, 2011 - $208). These franchisees had no earnings attributable to the Company for the year ended December 31, 2012 (December 31, 2011 - $nil).

6. Inventories

The Company's inventory balances as at December 31, 2012 and December 31, 2011 consisted of the following:

	December 31, 2012	December 31, 2011
	$	$
Retail and home medical equipment	**22,232**	1,311
Medical supplies and prescription drugs	**4,732**	3,946
	26,964	5,257

Inventories that were expensed during the current year were $89,678 (2011 - $17,891).

Provisions for the impairment of inventory for the years ended December 31, 2012 and 2011 are as follows:

	2012 **$**	**2011** **$**
Balance, beginning of year	—	—
Acquisitions	47	—
Additions	657	—
Balance, end of year	704	—

There were no reversal of inventory provisions for the years ended December 31, 2012 and 2011. Inventories are pledged as security as part of the Company's lending agreements as outlined in note 11.

7. Business Combinations

Motion Specialties

On February 13, 2012, the Company acquired 100% of the shares of Motion Specialties Inc. ("Motion Specialties"). Motion Specialties has 24 locations across Canada and is a leading home health care provider offering a wide range of mobility devices, including: wheelchairs, scooters, walkers, bathroom safety equipment, portable oxygen, Continuous Positive Airway Pressure ("CPAP") machines, and home accessibility products such as stair lifts and home elevators. The consideration for the acquisition of Motion Specialties included cash, common shares and share purchase warrants, elements of which are subject to Motion Specialties achieving certain performance targets. The total consideration paid for Motion Specialties is based on a three-year performance based formula. The Company paid $13,896 in cash and issued 3,495,359 common shares to the vendors of Motion Specialties at the time of acquisition.

The release of contingent consideration to the vendors of up to $15,000 in contingent cash and 9,004,641 common shares of the Company will be over time subject to the acquired business achieving certain annual performance targets. The 9,004,641 contingent common shares are held in escrow. The Company will also issue warrants to the vendors to purchase up to 7,500,000 common shares of the Company calculated based on the out-performance of certain financial targets. The warrants will have a two-year term from the date on which they vest and become exercisable.

No recorded goodwill has been added to the Company's cumulative eligible capital ("CEC") pool for tax purposes.

Motion Specialties has revenues of $83,305 and income from operations of $2,657 which have been included in the Company's consolidated financial statements from the date of acquisition to December 31, 2012.

Other Acquisitions

For the year ended December 31, 2012, the Company completed the acquisition of five physiotherapy clinic operations, two retail and home medical stores and a pharmacy-related business. The Company paid aggregate cash consideration of $5,549, issued 102,273 of common shares representing consideration of $163 and certain of these agreements include contingent cash and/or contingent share considerations based on the acquired entity achieving specified financial performance targets. There are 587,500 shares held in escrow as a result of these acquisitions.

(in thousands of Canadian dollars)

7. Business Combinations - continued

The purchase price and fair value of the net assets acquired in the Company's acquisitions are as follows:

Purchase price	Motion Specialties $	Physiotherapy Clinics $	Retail and Home Medical Stores $	Pharmacy $	Total $
Cash consideration	13,896	2,727	2,372	450	19,445
Common shares	5,977	163	—	—	6,140
Contingent consideration	21,034	1,603	125	—	22,762
	40,907	4,493	2,497	450	48,347

Fair value of net assets acquired	Motion Specialties $	Physiotherapy Clinics $	Retail and Home Medical Stores $	Pharmacy $	Total $
Current assets	35,706	566	1,487	362	38,121
Property and equipment	3,793	311	100	7	4,211
Goodwill	13,410	3,297	1,114	358	18,179
Intangibles	17,086	735	—	—	17,821
Deferred tax liabilities	(3,280)	(169)	—	—	(3,449)
Other non-current assets	—	21	—	—	21
Less: liabilities assumed	25,808	268	204	277	26,557
	40,907	4,493	2,497	450	48,347

Included in current assets for Motion Specialties are accounts receivable of $18,542 and inventory of $16,389.

Transaction and restructuring costs

Transaction and restructuring costs incurred, including legal, consulting and due diligence fees, directly related to business combinations as well as severance costs, are expensed as incurred. Transaction costs for the year ended December 31, 2012 were $3,502 (December 31, 2011 - $ 6,837). Restructuring costs for the year ended December 31, 2012 includes costs associated with the departure of the Company's former CEO, costs associated with closed assessment centers and clinic locations and other staffing reductions. Restructuring costs for the year ended December 31, 2012 were $7,920 (December 31, 2011 - $1,344).

(in thousands of Canadian dollars)

7. Business Combinations - continued

At December 31, 2012, the Company had accrued liabilities related to restructuring costs of $4,632 (December 31, 2011 - $1,973) included in trade and other payables consisting of the following:

	Severance $	Closed Locations $	Other $	Total $
Balance at December 31, 2011	896	1,077	—	1,973
Additions	5,890	1,069	961	7,920
Payments	(4,153)	(579)	(529)	(5,261)
Balance at December 31, 2012	**2,633**	**1,567**	**432**	**4,632**

Annualized performance of acquisitions

The following table illustrates the impact on revenue and income from operations as if all business combinations had taken place on January 1, 2012:

Year ended December 31, 2012	Transaction effective date	Revenue $	(Loss) income from operations
As reported		436,651	(9,269)
Motion Specialties	February 13, 2012	9,585	243
Physiotherapy clinics	Various	152	16
Retail and home medical stores	Various	1,821	(9)
Pharmacy	October 1, 2012	1,273	92
Annualized Total		449,482	(8,927)

The data above was gathered from due diligence and closing statements as received in the process of completing the transactions.

2011 Acquisitions

Performance

On December 8, 2011, the Company completed the acquisition of 75% of the shares of Performance Medical Group ("Performance"). Performance operates clinics mainly in Ontario providing custom orthotics, custom bracing, and laser and shockwave therapy.

The purchase price of $6,554 included $3,000 in cash paid upon closing and the estimated value of contingent consideration of $2,856. Contingent consideration includes the issuance of 3,000,000 common shares of the Company which are being held in escrow subject to Performance achieving certain performance targets. Contingent consideration also includes the issuance of 2,000,000 share purchase warrants at a price of $2.33 subject to Performance achieving certain financial targets. The warrants have a two-year term from the date on which they vest, subject to outperformance of the total performance target.

No recorded goodwill has been added to the Company's CEC pool for tax purposes.

7. Business Combinations - continued

Classic Care

On November 17, 2011, the Company completed the acquisition of 100% of the shares of Classic Care Pharmacy Corporation (“Classic Care”). Classic Care provides pharmaceutical, dispensing, delivery and consulting services to long-term care homes and retirement residences.

The purchase price of $49,237 included $24,856 in cash, the issuance of 11,240,375 common shares valued at $20,607 to be released from escrow over a one and a half year period and the estimated value of contingent consideration of $3,774. The contingent consideration includes 2,810,094 common shares of the Company which are being held in escrow subject to Classic Care achieving certain financial performance targets. In addition, 5,000,000 warrants were issued at a price of $1.78 and vest on an accrued basis based upon Classic Care exceeding certain performance targets. The warrants have a three-year term from the date on which they vest, subject to outperformance of the total performance target.

No recorded goodwill has been added to the Company's CEC pool for tax purposes.

Blue Water

On August 17, 2011, the Company completed the acquisition of substantially all of the assets and businesses of Blue Water Rejuvenation Institute Inc., Blue Water Diagnostics Ltd. and Windsor Endoscopy Centre Ltd. (collectively “Blue Water”) and 75% of the outstanding shares of London Scoping Centre (“LSC”), which were collectively owned by the same vendor.

Blue Water owns and operates three surgical and endoscopy facilities located in Sarnia and Windsor, Ontario. The purchase price of $10,421 included $7,500 in cash paid upon closing, $175 holdback amount, and the estimated value of contingent consideration of $2,746 representing the issuance of up to 9,230,769 common shares of Centric Health, comprised of 6,153,846 common shares and warrants to purchase up to 3,076,923 common shares at a price of $1.30 subject to Blue Water achieving certain performance targets. The warrants have a two-year term from the date on which they vest, subject to outperformance of the total performance target.

The entire amount of recorded goodwill and intangible assets has been added to the Company's CEC pool for tax purposes.

LSC

On August 17, 2011, the Company completed the acquisition of 75% of the issued and outstanding shares of LSC for cash and additional share-based contingent consideration. LSC is located in London, Ontario, in a newly constructed leased facility offering a modern, high-tech outpatient clinic which provides a range of scoping procedures.

The purchase price of $875 included $500 in cash paid upon closing, and the estimated value of contingent consideration of $306 representing the issuance of up to 1,050,000 common shares of the Company, comprised of 675,000 common shares and warrants to purchase up to 375,000 common shares at a price of $1.30 subject to LSC achieving certain performance targets. The warrants have a two-year term from the date on which they vest, subject to outperformance of the total performance target.

No recorded goodwill has been added to the Company's CEC pool for tax purposes.

7. Business Combinations - continued

DNP

On August 15, 2011, the Company completed the acquisition of substantially all of the assets and businesses of Dedicated National Pharmacies Inc., Methadrug Clinic Limited, and Union Medical Pharmacy Inc. (collectively “DNP”). DNP operates a network of specialty and niche pharmacies.

The purchase price of $9,597 included $9,157 in cash paid upon closing, and 200,000 common shares issued at a value of $440.

The value ascribed for the Company's space licence agreement has been added to the Company's capital cost allowance pool for tax purposes.

LifeMark

On June 9, 2011, the Company completed the acquisition of 100% of the residual limited partnership units of LifeMark Health Limited Partnership (“LifeMark”). LifeMark operates approximately 104 physiotherapy clinics, 5 assessment clinics, one surgical centre (Calgary, Alberta), has franchise rights over 66 home medical equipment retail locations (“MEDIchair”) across Canada and operates 4 MEDIchair stores.

The purchase price of $190,062 included $83,200 in cash paid upon closing (which included repayment of certain existing debt within LifeMark), and the estimated value of contingent consideration of $106,862 representing the issuance of up to 46,875,000 shares of the Company which are contingent on LifeMark achieving certain predetermined earnings targets for the twelve months ending June 30, 2012. In addition, the vendors of LifeMark could earn contingent consideration based on the outperformance of EBITDA targets for acquisitions which LifeMark was in the process of negotiating at the time of its acquisition and were actually completed within a designated period after the acquisition of LifeMark by the Company. On August 14, 2012, the Company agreed to release 6,875,000 of the LifeMark escrowed shares to the LifeMark vendors as LifeMark achieved certain performance metrics as specified in the purchase agreement for this transaction. The remaining 40,000,000 LifeMark escrowed shares were cancelled and the outperformance contingent consideration was not achieved. Included in the liabilities assumed on completion of the acquisition is preferred partnership units held by Alaris Income Growth Fund Partnership (“Alaris”) of $65,500, which are further described in note 11 to these consolidated financial statements.

No recorded goodwill has been added to the Company's CEC pool for tax purposes. Certain amounts related to intangible assets acquired in this transaction have been added to the Company's CEC for tax purposes.

SSI

On January 19, 2011, the Company completed the acquisition of 100% of the shares in Surgical Spaces Inc. (“SSI”), being effective as at January 1, 2011. SSI operates two surgical facilities in Vancouver and Winnipeg as well as a full-service medical clinic providing diagnostic testing, specialty medical consulting, family practice and urgent care to its patients.

(in thousands of Canadian dollars)

7. Business Combinations - continued

The purchase price of $18,983 included $8,150 in cash paid upon closing, $678 in cash paid for a net debt adjustment, a holdback of $250 and the estimated value of contingent consideration of $9,905. The balance of the purchase price was to be paid by the issuance of up to 11,827,956 shares of the Company at a price of $1.10 based on SSI achieving certain predetermined earnings targets for the year ended December 31, 2011. SSI achieved certain performance targets as specified in the agreement for this transaction. As a result, on February 28, 2012, the Company issued 10,127,956 shares to the SSI vendors. The remaining 1,700,000 shares held in escrow for the vendors of SSI were cancelled and no share purchase warrants were issued to the vendors of SSI.

No recorded goodwill or intangible assets have been added to the Company's CEC pool for tax purposes.

The purchase price and fair value of the net assets acquired for the Company's acquisitions are as follows:

Purchase price	SSI $	LifeMark $	DNP $	Blue Water $	LSC $	Classic Care $	Performance $	Other $	Total $
Cash consideration	8,828	18,200	9,157	7,500	500	24,856	3,000	1,103	73,144
Common shares	—	—	440	—	—	20,607	—	—	21,047
Contingent consideration	9,905	106,862	—	2,746	306	3,774	2,856	117	126,566
Holdback amount	250	—	—	175	—	—	—	—	425
Non-controlling interest	—	—	—	—	69	—	698	—	767
Cash paid to Alaris to redeem preferred partnership units	—	65,000	—	—	—	—	—	—	65,000
	18,983	190,062	9,597	10,421	875	49,237	6,554	1,220	286,949

Fair value of net assets acquired	SSI $	LifeMark $	DNP $	Blue Water $	LSC $	Classic Care $	Performance $	Other $	Total $
Current assets	1,171	27,072	726	114	196	7,803	190	635	37,907
Property and equipment	4,333	9,803	1,742	855	386	1,049	24	160	18,352
Goodwill	12,984	195,797	—	7,830	600	25,356	3,736	249	246,552
Intangibles	9,038	108,960	7,129	2,230	—	28,198	3,750	310	159,615
Deferred tax (liabilities) assets	(1,352)	(4,193)	—	66	19	(6,694)	(938)	—	(13,092)
Other non-current assets	—	1,582	—	—	—	—	—	—	1,582
Less: liabilities assumed	7,191	148,959	—	674	326	6,475	208	134	163,967
	18,983	190,062	9,597	10,421	875	49,237	6,554	1,220	286,949

The purchase price allocations for SSI, LifeMark, DNP, Blue Water, LSC, Classic Care and Performance are final. The purchase price for Motion Specialties is near completion but not yet final. The Company has identified the majority of tangible assets, intangibles assets and liabilities assumed for this acquisition but is in the process of finalizing certain working capital balances. During the year ended December 31, 2012, the Company recorded adjustments of $10,559 to goodwill for 2011 acquisitions in finalizing purchase price allocations. Of these adjustments $2,534 were related to working capital adjustments for LifeMark, Classic Care and Performance, $290 related to the valuation of minority interest for LSC and Performance and $7,735 related to deferred tax liabilities for the acquisitions of Classic Care and Performance. The Company also paid additional consideration of $47 in 2012 with respect to the acquisition of Classic Care.

(in thousands of Canadian dollars)

8. Contingent Consideration

The following illustrates the possible range of contingent consideration due to vendors from business acquisitions:

Acquired entity	Acquisition date	Performance term	Contingent Cash Consideration $	Issuable common shares	Issuable outperformance warrants[3]	Amount recognized at acquisition date $	Range of value of contingent consideration $	Contingent consideration liability at December 31, 2012 $
Blue Water	Aug. 17, 2011	3 years	—	6,153,846	3,076,923	2,746	0 – 1,969	—
Classic Care	Nov. 17, 2011	1 – 1.5 years	—	2,810,094	5,000,000	3,774	2,618	2,618
Performance	Dec. 8, 2011	2 years	—	3,000,000	2,000,000	2,856	0 – 645	—
Motion Specialties	Feb. 13, 2012	3 years	15,000	9,004,641	7,500,000	21,034	0 – 20,267	11,980
Other	Various	3 years	498	4,387,760	2,035,934	2,628	0 – 3,005	2,371
Total			**15,498**	**25,356,341**	**19,612,857**	**33,038**	**2,618 – 28,504**	**16,969**

[3] The issuable outperformance warrants will only be issued to the vendors of the transaction to the extent that the acquired business outperforms their warranted earnings before interest taxes depreciation and amortization as established in the respective transaction agreements.

The maximum possible contingent consideration is an estimate. For the purposes of the disclosure above, the maximum possible contingent consideration has been valued at $28,504 based on the share price of the Company's common shares on December 31, 2012 ($0.67 per share).

On February 12, 2013, the Company issued 2,810,094 common shares and 5,000,000 share purchase warrants to the vendors of Classic Care which represents the contingent consideration liability accrued by the Company for Classic Care at December 31, 2012.

The following is the continuity of the contingent consideration liability to be settled in cash, common shares and warrants:

	SSI $	LifeMark $	Blue Water $	Classic Care $	Performance $	Motion Specialties $	Other $	Total $
Balance at December 31, 2011	16,103	37,693	3,317	3,616	2,620	—	5,500	68,849
Fair value at date of acquisition	—	—	—	—	—	21,034	1,728	22,762
Change in fair value during the period	102	(32,537)	(3,317)	(998)	(2,620)	(9,054)	(2,740)	(51,164)
Contingent consideration settled in shares	(16,205)	(5,156)	—	—	—	—	(536)	(21,897)
Contingent consideration settled in cash	—	—	—	—	—	—	(1,581)	(1,581)
Total contingent consideration	—	—	—	**2,618**	—	**11,980**	**2,371**	**16,969**
Less: Current portion	—	—	—	**2,618**	—	**1,068**	**1,703**	**5,389**
Non-current portion at December 31, 2012	—	—	—	—	—	**10,912**	**668**	**11,580**

The above table includes contingent consideration payable in cash, subject to achieving performance milestones, in the amount of $10,298 at December 31, 2012 of which $1,853 is payable within one year.

(in thousands of Canadian dollars)

9. Property and Equipment

	Office furniture, fixtures and equipment $	Computer equipment $	Medical and physiotherapy equipment $	Leasehold improvements $	Total $
Year ended December 31, 2011					
Opening net carrying value	233	357	370	489	1,449
Additions	399	389	644	2,707	4,139
Acquisitions	2,589	1,776	6,145	7,591	18,101
Depreciation	(418)	(279)	(783)	(1,623)	(3,103)
Closing net carrying value	**2,803**	**2,243**	**6,376**	**9,164**	**20,586**
As at December 31, 2011					
Cost	4,995	3,443	7,678	10,827	26,943
Accumulated depreciation	(2,192)	(1,200)	(1,302)	(1,663)	(6,357)
Net carrying value	**2,803**	**2,243**	**6,376**	**9,164**	**20,586**
Year ended December 31, 2012					
Opening net carrying value	2,803	2,243	6,376	9,164	20,586
Additions	627	1,513	2,643	3,145	7,928
Finance leases	—	—	188	—	188
Acquisitions	1,569	452	785	1,405	4,211
Purchase price allocation adjustment		(378)			(378)
Disposals	(73)	(67)	(17)	(275)	(432)
Depreciation	(1,308)	(874)	(2,135)	(2,784)	(7,101)
Closing net carrying value	**3,618**	**2,889**	**7,840**	**10,655**	**25,002**
As at December 31, 2012					
Cost	7,118	4,963	11,277	15,102	38,460
Accumulated depreciation	(3,500)	(2,074)	(3,437)	(4,447)	(13,458)
Net carrying value	**3,618**	**2,889**	**7,840**	**10,655**	**25,002**

(in thousands of Canadian dollars)

10. Goodwill and Intangible Assets

	Goodwill $	Licenses $	Contracts $	Non-compete contracts $	Computer software $	Franchise rights $	Customer & physician relationships $	Trademark $	Total $
Year ended December 31, 2011									
Opening net carrying value	19,302	1,026	4,396	—	2,064	—	2,145	—	28,933
Additions	—	—	—	—	292	—	—	—	292
Acquisitions	235,993	7,759	9,768	955	2,200	6,860	82,870	48,825	395,230
Amortization charge	—	(267)	(688)	(266)	(435)	(186)	(6,542)	(3,086)	(11,470)
Impairment	(50,000)	—	—	—	—	—	(872)	—	(50,872)
Closing net carrying value	**205,295**	**8,518**	**13,476**	**689**	**4,121**	**6,674**	**77,601**	**45,739**	**362,113**
As at December 31, 2011									
Cost	255,295	9,156	14,164	955	7,112	6,860	85,070	48,825	427,437
Accumulated amortization and impairment	(50,000)	(638)	(688)	(266)	(2,991)	(186)	(7,469)	(3,086)	(65,324)
Net carrying value	**205,295**	**8,518**	**13,476**	**689**	**4,121**	**6,674**	**77,601**	**45,739**	**362,113**
Year ended December 31, 2012									
Opening net carrying value	205,295	8,518	13,476	689	4,121	6,674	77,601	45,739	362,113
Additions	—	—	—	—	331	—	—	—	331
Acquisitions	18,179	—	500	1,500	586	—	10,735	4,500	36,000
Purchase price allocation adjustment	10,559	—	—	—	378	—	—	—	10,937
Amortization charge	—	(713)	(966)	(703)	(958)	(343)	(19,209)	(5,448)	(28,340)
Impairment	(20,688)	—	—	—	—	—	—	(6,633)	(27,321)
Closing net carrying value	**213,345**	**7,805**	**13,010**	**1,486**	**4,458**	**6,331**	**69,127**	**38,158**	**353,720**
As at December 31, 2012									
Cost	284,033	9,156	14,664	2,455	8,407	6,860	95,805	53,325	474,705
Accumulated amortization and impairment	(70,688)	(1,351)	(1,654)	(969)	(3,949)	(529)	(26,678)	(15,167)	(120,985)
Net carrying value	**213,345**	**7,805**	**13,010**	**1,486**	**4,458**	**6,331**	**69,127**	**38,158**	**353,720**

The Company has $14,572 of indefinite life intangible assets at December 31, 2012 (December 31, 2011 - $14,252).

The Company identified an indicator of impairment related to the BlueWater trademark at December 31, 2012. Commencing in 2013, this facility has been rebranded and as such the BlueWater trademark is no longer in use by the Company. The Company has recorded an impairment of $1,333 for the year ended December 31, 2012, which represents the remaining unamortized value of the BlueWater trademark.

10. Goodwill and Intangible Assets - continued

The Company identified an indicator of impairment related to the Classic Care and Motion Specialties trademarks at December 31, 2012. As part of the identification of intangible assets, these trademarks have been recorded at their fair market value. However, as the Company plans to rebrand these operations over a period of time which is shorter than their estimated useful lives, the Company has recorded impairments of $3,100 for the Classic Care trademark and $2,200 for the Motion Specialties trademark. The remaining balance reflects the estimated fair value of these trademarks based on the expected life over which the Company intends to use them.

The Company completed its annual impairment test of goodwill and indefinite life intangible assets and concluded that there was an impairment of $20,688. A significant portion of the consideration paid for acquisitions include shares of the Company and cash to settle the contingent consideration portion of the purchase price. The value of contingent consideration is valued based on the Company's share price at the date of acquisition and discounted to reflect that the shares are not freely tradeable until they are released from escrow. This increases the cost of the acquisition and related recognition of goodwill. If the Company's share price declines from the date of acquisition or the Company revises downward the probability of a vendor achieving their targeted earn-out, this results in a reduction in the contingent consideration obligation to vendors and the recognition of a gain for the change in the fair value of the contingent consideration obligation. The Company considers these reductions in the assessment of the fair value of the acquired company for the purposes of assessing impairment of goodwill and indefinite life intangible assets acquired from an acquisition.

The Company measured its recoverable amount based on the fair value of the CGU less its cost to sell. The Company used a capitalized cash flow approach which involves capitalizing the estimated future maintainable discretionary after-tax cash flows from operations using a rate of return, which serves as a measure of the rate of return required by a prospective purchaser of the business reflecting, among other factors, the risk inherent in achieving the determined level of maintainable cash flow. This approach requires assumptions about revenue growth rates, operating margins, tax rates and discount rates.

The Company identified ten CGUs as part of its goodwill impairment testing. The Company allocated indefinite life intangible assets of $12,916 to the physiotherapy - eldercare CGU, $1,026 to a surgical CGU and $630 to the pharmacy CGU.

The Company's growth assumptions were based on the Company's 2012 performance as compared to historical performance. The Company projected normalized revenue, operating margins, and cash flows and applied a perpetual long-term growth rate. In arriving at its forecasts, the Company considered past experience, economic trends and inflation as well as industry and market trends.

The Company assumed a discount rate in order to calculate the present value of its capitalized cash flows. The discount rate represented a weighted average cost of capital (“WACC”) for comparable companies operating in similar industries as the applicable CGU, based on publicly available information. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of the CGU. Lower discount rates were applied to CGUs whose cash flows are expected to be less volatile due to factors such as the maturity of the market they serve and their market position. Higher discount rates were applied to CGUs whose cash flows are expected to be more volatile due to competition, or participation in less stable geographic markets.

(in thousands of Canadian dollars)

10. Goodwill and Intangible Assets - continued

The tax rates applied to the cash flow projections were based on the statutory tax rate of the Company of approximately 27%. Tax assumptions are sensitive to changes in tax laws as well as assumptions about the jurisdictions in which profits are earned. It is possible that actual tax rates could differ from those assumed.

The assumptions used by the Company in its goodwill impairment testing are as follows:

CGU	Goodwill $	Terminal Growth Rate	Discount Rate
Physiotherapy – Clinics	67,099	2%	9.0%
Physiotherapy - Eldercare	48,269	2%	10.5%
Assessments	32,457	2%	10.0%
Retail and Home Medical	30,255	3%	10.5%
Pharmacy	30,803	3%	10.0%
Surgical - Western Canada	12,984	2%	11.0%
Surgical - Southwestern Ontario	8,430	2%	11.0%
Orthotics	3,736	2%	11.0%
	234,033	**2.2%**	**10.0%**

For the year ended December 31, 2012, the fair value for each CGU, other than the Retail and Home Medical, Surgical - Southwestern Ontario, Surgical - Western Canada and Orthotics CGUs were in excess of their carrying value. The impairments for the Retail and Home Medical CGU of $10,700, the Surgical - Southwestern Ontario CGU of $4,500, the Surgical - Western Canada CGU of $2,800 and the Orthotics CGU of $2,688 are a result of the carrying value of the CGU being in excess of its fair value. The impairment of the Retail and Home Medical CGU was mainly a result of higher than anticipated working capital levels which impacted on the overall fair value of the CGU. The impairment of the Surgical - Southwestern Ontario CGU, Surgical - Western Canada CGU and the Orthotics CGU were a result of lower than anticipated financial performance. The Company completed a reconciliation between their market capitalization and the fair value of their CGUs in order to confirm the conclusion reached.

For the Physiotherapy - Clinics CGU, a change in the discount rate of 0.5% combined with a change in the estimated terminal growth rate by 2% would cause the estimated recoverable amount to equal the carrying amount. The Company does not believe that any changes in other key assumptions would have a significant impact on the determination of the recoverable amount of the Company's other CGUs to which goodwill is allocated at December 31, 2012.

The Company recorded a goodwill impairment loss of $50,000 for the year ended December 31, 2011, in the physiotherapy - clinics CGU, which arose from the acquisition of LifeMark. A significant portion of the consideration paid for LifeMark in June 2011 included shares of the Company to settle the contingent consideration portion of the purchase price. The value of contingent consideration was valued based on the Company's share price at the date of acquisition which was $2.90 per share and discounted to reflect that the shares are not freely tradable until they are released from escrow. This substantially increased the cost of the acquisition and related recognition of goodwill. The Company's share price at December 31, 2011 was $1.59. The Company revised its estimate for the amount of contingent consideration that the vendors of LifeMark will receive at the conclusion of their earn-out period. This revision has reduced the contingent consideration obligation and the Company's assessment of the LifeMark fair value for the purposes of assessing impairment of goodwill and indefinite life intangible assets acquired with the acquisition of LifeMark.

(in thousands of Canadian dollars)

10. Goodwill and Intangible Assets - continued

For the year ended December 31, 2011, the fair value for each CGU, other than the physiotherapy - clinics CGU, was in excess of its carrying value. The Company also recognized an impairment loss for the year ended December 31, 2011 of $872 for certain prescription files in their pharmacy operations. The impairment was a result of more rapid attrition of the customer relationship as had been estimated by the Company. The Company did not reverse any impairment losses for definite life intangible assets into income for the years ended December 31, 2012 and December 31, 2011.

11. Borrowings

Borrowings consist of the following:

	December 31, 2012	December 31, 2011
	$	$
Term Loan	**127,500**	155,000
Loan arrangement costs[4]	**(5,202)**	(5,977)
Revolving Facility	**45,477**	26,888
Convertible debt	**53,388**	8,000
Unaccreted discount on convertible debt	**(20,011)**	(3,761)
Fair value of redemption feature[5]	**(1,540)**	—
Related party convertible loan (note 17)	**5,000**	5,000
Unaccreted discount on related party convertible loan (note 17)	**(424)**	(773)
Total borrowings	**204,188**	184,377
Less: current portion of borrowings	**19,576**	175,911
Total non-current borrowings	**184,612**	8,466

[4] Included in loan arrangement costs which are being amortized over the life of the Term Loan are financing fees associated which GHIS as described in note17.
[5] Fair value of redemption feature is an embedded derivative in the private placement which is netted against the debt amount for presentation purposes.

On June 9, 2011, the Company entered into a credit agreement for a four-year committed term facility ("Term Loan") and a four-year committed operating facility ("Revolving Facility"). The Term Loan had an original maximum borrowing limit of $160,000, with quarterly principal repayment terms. Interest is calculated on a sliding scale ranging from prime plus 1.25% to prime plus 2.50% for principal borrowed and a range of 0.79% to 1.22% standby rate fee for amounts not borrowed. Unamortized loan arrangement costs totaled $5,202 at December 31, 2012, and are netted against the Term Loan.

The Term Loan is subject to covenant tests to be performed at each reporting date. On May 10, 2012 and December 28, 2012, the Company amended its lending agreement with its senior lenders. As part of these amended lending agreements, the Company amended certain financial performance covenants. The amended lending agreements revise the calculation of interest on a sliding scale ranging from prime plus 1.25% to prime plus 3.25% for principal borrowed and a range of 0.56% to 1.06% standby rate fee for amounts not borrowed.

The Company was in compliance with its financial performance covenants at December 31, 2012. The Company did not meet certain of its financial performance covenants at March 31, 2012 and December 31, 2011. However, the Company received a waiver from its lenders subsequent to March 31, 2012 and December 31, 2011, respectively, with respect to certain financial performance covenants at March 31, 2012 and December 31, 2011. As required under IFRS, the Company presented its net Term Loan and Revolving Facility balances as current liabilities for these periods.

(in thousands of Canadian dollars)

11. Borrowings - continued

At December 31, 2012, the Company's Term Loan and Revolving Facility balances are presented as long-term liabilities except for any amounts which are scheduled to be repaid by the Company within the next twelve months.

On March 21, 2013, the Company amended its lending agreement with its senior lenders. In addition to other revisions, the Company amended certain financial performance covenants for the March 31, 2013 and June 30, 2013 measurement dates. The amended lending agreement revises the calculation of interest on a sliding scale ranging from prime plus 1.50% to prime plus 4.00% for principal borrowed and a range of 0.63% to 1.25% standby rate fee for amounts not borrowed. In addition, the fees incurred by the Company for the amended lending agreement will vary based on whether and when the Company completes an alternative financing arrangement.

As at December 31, 2012, the Company has borrowed $127,500 of the Term Loan. Repayment terms are as follows:

	Total	1 year	2-3 years
Term Loan	$ 127,500	$ 15,000	$ 112,500

The Revolving Facility has a maximum borrowing limit of $35,000, inclusive of $10,000 overdraft line availability, at a variable rate based on prime. The Company also had additional borrowing capacity in terms of a pre-arranged accordion of $40,000 to be made available under its Revolving Facility, for acquisitions. During the year ended December 31, 2012, the Company used the accordion as part of its acquisition of Motion Specialties and as such currently has a borrowing limit of $75,000 under the Revolving Facility. As at December 31, 2012, the Company has borrowed $45,477 from the Revolving Facility. The Revolving Facility is payable at the end of the four year term from when the Company entered into its credit agreement.

Substantially all of the Company's assets are pledged as security for the above borrowings.

The Company's convertible debt at December 31, 2012, excluding related party convertible debt, consists of the following:

Debt instrument	**Principal $**	**Maturity**	**Interest Rate**
Directed share program	10,888	December 22, 2016	6.00%
Private placement	15,000	April 30, 2016	5.50%
Public debt	27,500	October 31, 2017	6.75%
	53,388		

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

(in thousands of Canadian dollars)

11. Borrowings - continued

The components of the offering that have been valued in the consolidated financial statements are the debt and convertible liability portion of the convertible borrowings. The debt has been fair valued based on current market interest rates. The derivative liability portion of convertible borrowings has been fair valued based on a modified Black Scholes valuation model.

Dividend yield	Nil
Expected volatility	56% - 80%
Risk-free interest rate	1.63% - 1.71%
Expected life in years	5
Share price at date of issue	\$0.68 - \$0.75
Credit Spread	14.52% - 17.18%

The Company has ascribed the following values to the components of the offering instrument:

Derivative liability portion of convertible borrowings	\$9,372
Debt	18,128
Total	\$27,500

On May 8, 2012, the Company completed a private placement of \$15,000 of subordinated, unsecured convertible notes. The accounting treatment for this transaction is outlined in notes 17 and 18.

On December 7, 2011, the Company announced a public offering with a focus on the Company's staff and healthcare professionals through a directed share program. The first closing of this offering was in December 2011 and the second closing was in February 2012. The accounting treatment for this transaction is outlined in note 18.

Concurrent to the closing of LifeMark on June 9, 2011, the Company repaid a \$5,000 related party loan, bearing interest at 7%, to Jamon Investments LLC (“Jamon”), in full, with accrued interest of \$66. Accelerated accretion of \$321 of non-cash interest on the related party loan was recorded in interest expense during the year ended December 31, 2011.

The Company entered into interest rate swap agreements with face values of \$75,000, \$25,000 and \$13,924. The interest rate swaps for \$75,000 and \$25,000 mature in June 2015 and have previously been designated as effective hedges. The Company de-designated these swaps as effective hedges on July 1, 2012 and as a result all future changes in the fair value of these swaps will be included as part of the statements of comprehensive income. The accumulated other comprehensive income balance of \$241 related to these interest rate swaps will be amortized to the statement of comprehensive income over the remaining life of the interest rate swaps. The interest rate swap for \$13,924 matures in March 2015 and has not been designated as an effective hedge. At December 31, 2012, the fixed interest rates on the Company's interest rate swaps were approximately 5.12% and the floating interest rates were based on the three month Canadian Bankers' Acceptance rate. The mark-to-market gain on interest rate swaps not designated as a hedge was \$675 for the year ended December 31, 2012. At December 31, 2012, the Company recorded a liability of \$823 (December 31, 2011 - \$1,812) for its derivative financial instruments.

(in thousands of Canadian dollars)

11. Borrowings - continued

The change in fair value of derivative financial instruments for the years ended December 31, 2012 and 2011 are as follows:

	Years ended December 31,	
	2012 **$**	2011 $
Change in fair value of interest rate swaps	**(675)**	1,396
Change in fair value of redemption feature	**1,600**	—
Change in fair value of derivative liability portion of convertible borrowings	**(2,872)**	—
	(1,947)	1,396

The continuity of the derivative financial instruments is as follows:

	Years ended December 31,	
	2012 **$**	**2011** **$**
Derivative financial instruments, beginning of year	**1,812**	—
Change in fair value of interest rate swaps	**(675)**	1,396
Change in fair value of interest rate swaps designated as hedges	**(314)**	73
Fair value of swap from acquisition	**—**	343
Derivative financial instruments, end of year	**823**	1,812

The continuity of the derivative liability portion of convertible borrowings is as follows:

	Years ended December 31,	
	2012 **$**	**2011** **$**
Derivative liability portion of convertible borrowings, beginning of year	**1,603**	—
Directed share program[6]	**432**	1,603
Public debt[6]	**9,246**	—
Change in fair value of derivative liability portion of convertible borrowings	**(2,872)**	—
Derivative liability portion of convertible borrowings, end of year	**8,409**	1,603

[6] Balances are net of transaction costs.

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

	Years ended December 31,	
	2012 **$**	**2011** **$**
Unaccreted discount on convertible borrowings, beginning of year	**3,761**	—
Additional discounts from convertible debt	**18,179**	3,761
Accretion expense	**(1,929)**	—
Unaccreted discount on convertible borrowings, end of year	**20,011**	3,761

(in thousands of Canadian dollars)

12. Preferred Partnership Units

The long-term debt of $65,500 represents preferred partnership units issued by LifeMark to Alaris that were assumed on acquisition on June 9, 2011. Alaris is entitled to annual distributions of $6,750 for the first year with annual increases of 4% at the end of each year thereafter. The Company is currently in the second year of the agreement and is paying Alaris an annual distribution of $7,020. The principal amount grows at 4% annually from the third anniversary. The Company and Alaris entered into an amended and restated partnership agreement which, among other things, provides that there may be no redemption of the Alaris interest in LifeMark in the first two years following closing of the LifeMark transaction. Subject to agreements with senior lenders and the availability of financing at a lower interest rate, the Company intends to redeem the preferred partnership units prior to the third anniversary.

13. Finance Leases

The Company acquired lease agreements in connection with the acquisitions of SSI, Blue Water, LSC and Motion. The lease agreements were obtained to finance certain medical and physiotherapy equipment used in operations. Included within SSI, Blue Water, LSC and Motion, in property and equipment, are the following amounts where the Company is a lessee under finance leases:

	December 31, 2012	December 31, 2011
	$	$
Cost - capitalized finance leases	**3,243**	3,001
Accumulated depreciation	**1,884**	881
Finance leased assets	**1,359**	2,120

The leases have an interest rate implicit in the lease ranging from 2% to 7% and resulted in the present value of lease liabilities as follows:

	December 31, 2012	December 31, 2011
	$	$
No later than 1 year	**876**	2,036
Later than 1 year but no later than 5 years	**240**	259
Future finance charges on finance lease	**51**	52
Minimum lease payments	**1,167**	2,347

The future minimum lease payments for finance leases are as follows:

	December 31, 2012	December 31, 2011
	$	$
No later than 1 year	**911**	2,068
Later than 1 year but no later than 5 years	**256**	279
Present value of finance lease liabilities	**1,167**	2,347

(in thousands of Canadian dollars)

14. Income Taxes

The total provision for income taxes varies from the amounts that would be computed by applying the statutory income tax rate of approximately 26.5% (December 31, 2011 - 29.7%) to income before income taxes as follows:

	December 31, 2012	December 31, 2011
	$	$
Loss before income taxes	**(7,929)**	(10,896)
Expected income tax recovery based on statutory tax rate	**(2,101)**	(3,240)
Impact from non-deductible items	**4,049**	2,809
Impact from unrecognized deferred tax asset	**3,500**	—
Permanent differences relating to contingent consideration	**(13,558)**	(16,210)
Permanent differences relating to impairments	**5,482**	14,260
Accounting to tax return adjustments	**1,771**	—
Effect of future tax rate changes	**16**	463
Income tax recovery	**(841)**	(1,918)
Current	**3,973**	2,916
Deferred	**(4,814)**	(4,834)

Permanent differences arise related to contingent consideration and impairments as these amounts have been recorded for accounting purposes but will never be realized as a deduction for income tax purposes.

Deferred income tax assets and liabilities are presented based on a net basis by legal entity on the balance sheet and are presented on a total gross basis in the notes to the financial statements.

The components of deferred income tax assets are as follows:

	December 31, 2012	December 31, 2011
	$	$
Property and equipment	**1,008**	673
Eligible capital expenditures	**3,231**	2,654
Non-capital losses carried forward	**8,305**	7,061
Investment tax credits	**37**	37
Financing costs	**1,094**	795
Accrued liabilities deductible when paid	**1,415**	1,171
Deferred income tax assets	**15,090**	12,391

(in thousands of Canadian dollars)

14. Income Taxes - continued

The components of deferred income tax liabilities are as follows:

	December 31, 2012	December 31, 2011
	$	$
Property and equipment	**2,113**	1,593
Acquired intangible assets	**17,792**	11,149
Accrued liabilities deductible when paid	**911**	135
Convertible debt	**2,921**	—
Deferred income tax liabilities	**23,737**	12,877
Net deferred income tax liabilities	**(8,647)**	(486)

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

	December 31, 2012	**December 31, 2011**
	$	**$**
Deferred income tax asset	**18,285**	4,408
Deferred income tax liability	**26,932**	4,894
Net deferred income tax liabilities	**(8,647)**	(486)

The Company's movement in its net deferred tax liability is as follows:

	December 31, 2012	**December 31, 2011**
	$	**$**
Net deferred tax (liability) asset, beginning of year	**(486)**	747
Recognized in statement of comprehensive income	**4,814**	4,834
Acquired in business combinations	**(11,160)**	(5,357)
Other	**(1,815)**	(710)
Net deferred tax liability, end of year	**(8,647)**	(486)

For the year ended December 31, 2012, the Company recognized $1,527 in trade and other receivables related to Scientific Research and Experimental Development (“SRED”) tax incentives. The Company recognized the net benefit from these tax credits of $865 against related costs in costs of health services and supplies and employee costs. The net benefit recognized is based on estimates made by the Company as these credits have not yet been assessed and approved by taxation authorities.

As at December 31, 2012 and 2011, the Company had $45,354 and $28,051, respectively of gross tax loss carryforwards. The Company expects that future operations will generate sufficient taxable income to realize the deferred tax assets except for an unrecognized deferred tax asset of $3,500 which the Company has not recorded for the year ended December 31, 2012 in respect of certain non-capital losses. At December 31, 2012 and December 31, 2011, deferred tax assets of $80 and $241 were not recognized for capital losses for which the Company does not expect to realize the related benefit.

(in thousands of Canadian dollars)

14. Income Taxes - continued

The Company will add goodwill and intangible assets to its CEC pool when an asset acquisition of a business is completed. The Company will not add goodwill and intangible assets to its CEC pool when a share acquisition of a business is completed, unless there is a specified intangible asset that was acquired in the share purchase agreement for the acquisition.

Deferred income tax assets of $2,509 (December 31, 2011 - $1,966) are expected to be recovered within twelve months and $12,581 (December 31, 2011 - $10,425) are expected to be recovered after more than twelve months. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company believes that the use of these deductible differences is probable.

Deferred income tax liabilities of $911 (December 31, 2011 - $135) are expected to be settled within twelve months and $22,826 (December 31, 2011 - $12,742) are expected to be incurred after more than twelve months.

15. Interest Expense

Interest expense for the years ended December 31, 2012 and 2011 is comprised of the following:

	Years ended December 31,	
	2012 **$**	2011 $
Interest on long-term loan and revolving facilities	**11,324**	4,835
Amortization of loan arrangement fees	**1,771**	2,188
Interest on related party amounts	**781**	500
Accretion of related party loan discounts	**360**	841
Interest on capital leases	**98**	183
Interest on convertible debt	**1,232**	—
Accretion on convertible debt	**1,929**	—
Interest expense before distributions for preferred partnership units	**17,495**	8,547
Distributions for preferred partnership units	**6,885**	3,791
Total interest expense	**24,380**	12,338
Interest income	**(30)**	(93)
Net interest expense	**24,350**	12,245

(in thousands of Canadian dollars)

16. Trade Payables and Other Amounts

Trade and other payables at December 31, 2012 and December 31, 2011 are comprised of the following:

	December 31, 2012	December 31, 2011
	$	$
Trade payables	**33,243**	17,352
Accrued liabilities	**21,839**	19,877
Deferred revenue	**1,496**	773
Amounts payable to GHIS (note 17)	**4,976**	4,785
Restructuring costs (note 7)	**4,632**	1,973
	66,186	44,760

17. Related Party Transactions and Balances

In the normal course of operations, the Company has entered into certain related party transactions for consideration established with the related parties and approved by the independent non-executive directors of the Company.

Related party transactions

Related party transactions, in addition to those entered into with Company directors and management, have been entered into with Global Healthcare Investments and Solutions, Inc. ("GHIS") and entities controlled and related to the shareholders of GHIS including Jamon Investments LLC ("Jamon"), who own 36,098,976 shares or approximately 25% of the issued and outstanding common shares of the Company as of December 31, 2012. This ownership percentage disclosed assumes the issuance of 23,231,081 escrowed and restricted shares in the total common shares considered to be outstanding.

A summary of the transactions with related parties, excluding financing transactions discussed below, for the year ended December 31, 2012 and 2011, is as follows:

	Years ended December 31,	
	2012	2011
	$	$
GHIS fees:		
Completion fees	**192**	2,090
Financing fees	**—**	2,800
Advisory fees	**900**	720
Market capitalization fee	**—**	404
Total fees earned by GHIS in the period	**1,092**	6,014
GHIS travel and related expenses	**184**	128
Interest incurred on related party amounts	**781**	500
	2,057	6,642

On June 30, 2011, GHIS and the Company negotiated an amended consulting agreement which eliminated the 1% market capitalization and $20 monthly consulting fees and implemented a fixed annual fee of $1,200, to be paid monthly, and completion fees based on 0.5% of the enterprise value for completion of financing, mergers and acquisitions, subject to approval by the Board of Directors.

17. Related Party Transactions and Balances - continued

On March 21, 2013, subject to approval of the shareholders of the Company on May 9, 2013, GHIS and the Company negotiated an amended consulting agreement which eliminates the completion fee, removes the consulting fee for the year ended December 31, 2013, and amends the consulting fee to $75 per month from January 2014 to the completion of the agreement in June 2015. The Company expects to issue an equivalent of $2,150 in common shares of the Company to GHIS based on the five day value weighted average of the Company's share price immediately following the announcement of the Company's 2012 annual results. The total number of common shares to be issued will not exceed 5,000,000 and will be subject to a one year hold period unless the Company's Board of Directors approves an earlier release date. In addition, on March 21, 2013, GHIS waived their consulting fees for the fourth quarter of 2012.

In addition to the completion fees above, GHIS earned an additional $161 related to the March 2011 private placement financing which is netted against the proceeds of the equity instruments issued in that transaction, and in the year ended December 31, 2011, an additional $2,800 related to the new financing arrangements. This amount is netted against the bank loan in borrowings and will be amortized over the term of the loan using the effective interest method.

Included in trade payables and other amounts at December 31, 2012 and December 31, 2011 are $4,976 and $4,785, respectively, due to GHIS; and $76 and $226, respectively for interest payable to Jamon. The completion fees of $1,400 from the LifeMark acquisition and the financing fee of $2,800 related to specific 2011 financing activities are only due and payable to GHIS when it meets the conditions set out in the Credit Agreement between the Company and its senior lenders. Any outstanding financing and completion fees which are unpaid bear interest at 8% per annum.

For the year ended December 31, 2012, GHIS exercised 500,000 stock options at an exercise price of $0.50 resulting in proceeds of $250.

At December 31, 2011, GHIS had provided a letter of support to the Company indicating that it will exercise any options or warrants that it holds in the Company or provide alternative funding of similar value, if required, during 2012 in order to assist the Company in managing its liquidity risk. On May 8, 2012, entities controlled by the shareholders of GHIS were participants in a private placement which raised $15,000 which was used to pay down the Company's Term Loan. Of the funds raised, $6,838 was raised from entities controlled by the shareholders of GHIS and $2,040 was raised from directors, officers and other members of the Company's management team. On May 10, 2012, the Company notified GHIS that their letter of support was no longer required and was terminated.

Related party loans

The Company has a promissory note with Jamon for $5,000 that bears interest at 6% with a conversion feature of one share per one dollar of principal amount and is due November 9, 2013. In addition to the promissory note, Jamon was issued a warrant to purchase 1,000,000 common shares of the Company at an exercise price of $1.00 per share. The warrant expires on November 9, 2013. This promissory note is presented in the current portion of borrowing as outlined in note 11.

During the year ended December 31, 2012, the Company entered into loan agreements with a director and an officer of the Company who were former LifeMark shareholders of $400. These loans bear interest at 3% and are repayable within one year and are included in the Company's trade and other receivables. At December 31, 2012, $272 of these loans has been repaid to the Company.

(in thousands of Canadian dollars)

17. Related Party Transactions and Balances - continued

On August 14, 2012, the Company entered into a promissory note with the Company's CEO for $500 who is a director and officer of the Company. This promissory note bears interest at 4% per annum. The promissory note and related interest will be forgiven by the Company if the CEO is employed with the Company on the maturity date of September 3, 2016. If the CEO resigns prior to September 3, 2016, the promissory note and related interest is repayable on demand. In addition, a private placement for 782,227 common shares at a price of $0.64 and 782,227 warrants at a price of $0.75 was completed with the CEO on August 14, 2012. The accounting treatment for this transaction is presented in note 18.

On September 3, 2012, the Company issued 1,000,000 restricted shares to the Company's CEO which vest over a four year period.

Other

GHIS Capital was the holder of a convertible debenture issued by the Company in 2007. The Company redeemed the convertible debenture in 2009 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. On July 31, 2011, following a process involving an independent committee of the Board of Directors of the Company, the Company acquired all of the shares of GHIS Capital. The process included a fairness opinion from a leading professional services firm, to assist in supporting the value of the AHP warrant owned by GHIS Capital. The warrant enabled GHIS Capital to acquire a 25% interest in AHP for $33. As consideration for such acquisition, the Company issued 3,500,000 common shares to the shareholders of GHIS Capital. Upon completion of the acquisition of GHIS Capital on July 31, 2011, the existing security holder agreement between the Company and GHIS Capital was terminated. As a result of the acquisition of GHIS Capital and the termination of the security holder agreement, GHIS Capital's entitlement to a 25% participation in the Company's expansion into new health care sectors has been eliminated thus simplifying the Company's corporate structure and aligning the interests of all shareholders. The transaction has been accounted for at the fair value of the 3,500,000 common shares issued with this acquisition being treated as a capital transaction.

Key management compensation

Key management includes directors and executive management of the Company. The compensation expense or amounts payable to key management for employee services is shown below:

	Years ended December 31,	
	2012 **$**	2011 $
Salaries and benefits	**1,334**	1,156
Share-based payments	**2,058**	660
Other long-term benefits	**3**	238
Director fees	**376**	208
	3,771	2,262

(in thousands of Canadian dollars)

17. Related Party Transactions and Balances - continued

Directors employed by GHIS, other than the Executive Chairman who receives a fee of $200 per year, do not receive any director's fees. On March 28, 2013, the Executive Chairman and the Company agreed to amend the director's fee to $150 for the year ended December 31, 2012 and to waive the fee for all future periods. For the year ended December 31, 2012, the Company incurred restructuring costs of $1,000 (December 31, 2011 - $nil) and reversed share-based compensation expense of $337 (December 31, 2011 - $nil) related to the Company's former CEO that is no longer with the Company.

18. 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:

Years ended December 31, ($ thousands, except share amounts)	**2012**		2011	
Common shares	**Shares**	**Stated value $**	Shares	Stated value $
Balance, beginning of period	**98,220,254**	**62,525**	62,090,095	9,240
Issued in private placement	**—**	**—**	17,940,000	20,092
Cancellation of shares	**(600,000)**	**—**	—	—
Issuance of shares as compensation	**782,227**	**61**		
Issuance of shares	**450,000**	**482**	—	—
Shares released from escrow or issued as contingent consideration[7]	**17,788,669**	**21,930**	714,284	1,000
Issued on acquisitions	**3,597,632**	**6,140**	11,440,375	21,047
Issued through public financing	**463,163**	**581**	1,283,000	1,822
Restricted share unites vested	**—**	**—**	500,000	540
Issuance of shares on the acquisition of GHIS Capital	**—**	**—**	3,500,000	8,225
Warrants exercised	**—**	**—**	40,000	75
Stock options exercised	**687,500**	**482**	712,500	484
Balance, end of period	**121,389,445**	**92,201**	98,220,254	62,525

[7] Consists of 17,002,956 common shares issued from escrow and 785,713 common shares issued from treasury for the year ended December 31, 2012 and 714,284 common shares issued from treasury for the year ended December 31, 2011.

The Company's shares issued on 2012 acquisition are as follows:

	Shares	**Stated value $**
Motion Specialties	3,495,359	5,977
Other	102,273	163
	3,597,632	**6,140**

(in thousands of Canadian dollars)

18. Shareholders' Equity and Earnings per Share - continued

The Company's shares issued on 2011 acquisition are as follows:

	Shares	Stated value $
Classic Care	11,240,375	20,607
DNP	200,000	440
	11,440,375	**21,047**

The number of common shares considered to be issued for financial reporting purposes is exclusive of restricted shares issued, shares issued in trust or held in escrow pending the achievement of certain stated milestones or performance targets. The total shares in aggregate are 144,620,526 at December 31, 2012.

Shares related to contingent consideration held in escrow and restricted shares at December 31, 2012:

Entity	Escrowed and restricted shares
BlueWater	6,153,846
London Scoping	675,000
Classic Care	2,810,094
Performance	3,000,000
Motion Specialties	9,004,641
Other	587,500
Restricted compensation shares	1,000,000
Total	**23,231,081**

On September 3, 2012, the Company issued 1,000,000 common shares to the CEO of the Company. These shares are currently being held by the Company and will be released to the CEO over a four year period whereby 200,000 shares will be released on both January 1, 2013 and January 1, 2014 and 300,000 shares will be released on January 1, 2015 and January 1, 2016. These shares are being treated as share based compensation for accounting purposes.

On August 14, 2012, the Company released 6,875,000 of the LifeMark escrowed shares to the LifeMark vendors as LifeMark achieved certain performance metrics as specified in the purchase agreement for this transaction. The remaining 40,000,000 LifeMark escrowed shares were cancelled.

On February 28, 2012, the Company issued 10,127,956 of the SSI escrowed shares to the SSI vendors as SSI achieved certain performance metrics as specified in the purchase agreement for this transaction. The remaining 1,700,000 SSI escrowed shares were cancelled. The Company did not issue any share purchase warrants to the vendors of SSI.

Effective April 30, 2012, the Company's former CEO stepped down as President and CEO of the Company to pursue other interests. On May 8, 2012, the Company cancelled 1,200,000 common shares that were previously issued to him of which 600,000 were restricted shares and 600,000 were freely tradable shares and then issued 450,000 common shares of the Company to him.

(in thousands of Canadian dollars)

18. Shareholders' Equity and Earnings per Share - continued

For the year ended December 31, 2012, the vendors of Community Advantage Rehabilitation ("CAR") earned and were issued 714,284 (2011 - 714,284) common shares in satisfaction of achieving the performance targets.

The first year earn-out periods for BWC, including London Scoping Centre, ended on August 31, 2012. The BWC operations did not achieve their specified performance targets and as such no first year escrowed shares will be released to the vendors of BWC. The vendors of BWC are not expected to earn any escrowed shares in the second and third years of the earnout period. London Scoping Centres achieved approximately 95% of its first year performance targets and subsequent to December 31, 2012 the Company expects to issue 106,670 escrowed shares to the vendors of London Scoping Centres.

The first year earn-out period for Performance Medical Group ended on November 30, 2012 and Performance Medical Group did not achieve their specified performance targets.

As a result of employment arrangements with the vendor of Performance, the Company issued 1,500,000 escrowed shares on February 5, 2013 to the vendor of Performance with a fair value of $915.

The continuity of restricted and escrowed shares for the year ended December 31, 2012 is as follows:

Escrowed and restricted shares	
Balance at beginning of the year	71,941,896
Additional escrowed shares	9,592,141
Additional restricted shares	1,000,000
Released escrowed shares	(17,002,956)
Cancelled escrowed and restricted shares	(42,300,000)
	23,231,081

Issuance of common shares and warrants

On May 8, 2012, the Company completed a private placement of $15,000 of subordinated, unsecured convertible notes. The notes bear interest at 5.50% per annum, payable semi-annually and mature on April 30, 2016. Each note is convertible into common shares of the Company at the option of the holder at a strike price of $0.93 per share. In addition, for every $1 note purchased, the Company issued to its holder 270 share purchase warrants at a strike price of $0.93 per share which expire on April 29, 2016 which resulted in 4,050,000 warrants being issued. The convertible notes are subordinated to the Company's senior debt with its lenders and to the preferred partnership units.

The components of the offering that have been valued in the consolidated financial statements are the debt, warrants and equity portion of convertible borrowings. The debt has been fair valued based on current market interest rates. The warrants have been valued using the Black-Scholes pricing model and the equity portion of convertible borrowings have been valued using a modified Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	55%
Risk-free interest rate	1.85%
Expected life in years	4
Share price at date of issue	$1.07
Credit Spread	15.67%

(in thousands of Canadian dollars)

18. Shareholders' Equity and Earnings per Share - continued

The Company has ascribed the following values to the components of the offering instrument:

Warrants	$1,325
Equity portion of convertible borrowings	7,209
Debt	6,466
Total	$15,000

On December 7, 2011, the Company announced a public offering focused on the Company's staff and healthcare professionals through a directed share program of up to 3,000 units at a price of $10 per unit for total gross proceeds of up to $30,000. A unit consists of $2 worth of common shares priced at a 10% discount to the volume weighted average trading price of the Company's common shares listed on the TSX for the five consecutive trading days immediately preceding the date of the pricing of the offering, $8 of unsecured, subordinated to senior lenders and preferred partnership units, convertible notes which bear interest at an annual rate of 6% paid semi-annually, and common share purchase warrants, with a strike price of $1.66, equal to the same number of common shares forming part of the unit. The principal amount of the convertible notes can be converted prior to the close of business on the earlier of (i) the last business day immediately preceding the maturity date and (ii) the last business day immediately preceding the date specified by the Company for redemption of the convertible debt. Each note will be convertible into fully-paid, non-assessable and freely tradable shares of the Company at the option of the holder at any time following the period (if any) that the closing price of the Company's shares on the TSX has been at least $3.12 for 20 consecutive trading days at an initial conversion ratio of 320.51 shares per $1 principal amount of the convertible note. Upon conversion, the Company may offer and the converting holder may agree to the delivery of cash for all or a portion of the convertible debt surrendered in lieu of shares.

The Company sold 1,000 units and received gross proceeds of $10,000 from the first closing of this public offering which closed on December 22, 2011 and sold 361 units and received gross proceeds of $3,610 from the second closing of this public offering which closed on February 22, 2012. The Company incurred $881 in costs associated with the second closing. The components of the offering that have been fair valued in the consolidated financial statements are the debt, common shares, warrants and derivative liability portion of convertible borrowings. The debt has been fair valued based on current market interest rates. The common shares have been valued based on the closing price of the Company's shares on the date of the closing of this offering.

For the second closing, the warrants have been valued using the Black-Scholes pricing model and the derivative liability portion of convertible borrowings have been valued using a modified Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	81% - 85%
Risk-free interest rate	1.47% - 1.62%
Expected life in years	5
Share price at date of issue	$1.68
Credit Spread	14.00%

(in thousands of Canadian dollars)

18. Shareholders' Equity and Earnings per Share - continued

The Company has ascribed the following values to the components of the second closing of the offering instrument, excluding issuance costs:

Common shares	$797
Warrants	426
Derivative liability portion of convertible borrowings	432
Debt	1,955
Total	$3,610

For the first closing, the warrants have been valued using the Black-Scholes pricing model and the derivative liability portion of convertible borrowings have been valued using a modified Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	57% - 83%
Risk-free interest rate	1.25% - 1.62%
Expected life in years	5
Share price at date of issue	$1.62
Credit Spread	17.22%

The Company has ascribed the following values to the components of the first closing of the offering instrument, excluding issuance costs:

Common shares	$2,083
Warrants	1,105
Derivative liability portion of convertible borrowings	1,603
Debt	5,209
Total	$10,000

On March 3, 2011, the Company issued a private placement of 17,940,000 common shares and 538,200 warrants for gross proceeds of $21,528, net of issue costs and taxes of $1,115. Each warrant entitles the holder to acquire one common share for a period of two years from that date, at an exercise price of $1.27 per share. Subsequent to December 31, 2012, these warrants expired unexercised. The warrants have been fair valued using the Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	89%
Risk-free interest rate	1.88%
Expected life in years	2
Share price at date of issue	$1.60
Fair value of warrant	$0.86

(in thousands of Canadian dollars)

18. Shareholders' Equity and Earnings per Share - continued

The Company has ascribed the following values to the components of this private placement, excluding issuance costs:

Common shares	21,189
Warrants	339
Total	21,528

Issuance of stock options, warrants, deferred stock-based compensation

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

Years ended December 31,	**2012**		2011	
Common share options	**Options**	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of year	**11,355,500**	**$1.32**	6,100,000	$0.70
Options granted	**1,925,000**	**0.95**	6,514,000	1.80
Options exercised	**(687,500)**	**0.45**	(712,500)	0.39
Options cancelled /forfeited	**(1,368,500)**	**1.48**	(546,500)	1.22
Balance, end of year	**11,224,500**	**$1.29**	11,355,000	$1.32
Exercisable, end of year	**4,729,875**	**$1.06**	2,295,834	$0.68

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding as at December 31, 2012 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 - $0.50	900,000	0.34	1.2	843,750	0.34
$0.51 - $1.00	3,880,000	0.88	2.6	1,725,000	0.86
$1.01 - $1.50	1,100,000	1.03	1.9	825,000	1.03
$1.51 - $1.88	5,344,500	1.80	3.6	1,336,125	1.80
	11,224,500	**1.29**	**2.9**	**4,729,875**	**1.06**

(in thousands of Canadian dollars)

18. Shareholders' Equity and Earnings per Share - continued

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

Years ended December 31,	**2012**		2011	
Share purchase warrants	**Warrants**	**Weighted average exercise price**	Warrants	Weighted average exercise price
Balance, beginning of period	**23,281,200**	**$0.45**	21,500,000	$0.36
Warrants granted	**5,295,390**	**0.96**	1,821,200	1.54
Warrants exercised	**—**	**—**	(40,000)	1.27
Balance, end of period	**28,576,590**	**$0.55**	23,281,200	$0.45
Exercisable, end of year	**26,830,427**	**$0.47**	21,998,200	$0.38

The weighted‑average remaining contractual life and weighted‑average exercise price of warrants outstanding as at December 31, 2012 are as follows:

Warrants Outstanding				**Warrants Exercisable**	
Range of Exercise Price	**Number Outstanding**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (years)**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.33 - $1.66	28,576,590	$0.55	1.9	26,830,427	$0.47

On August 14, 2012, the Company entered into a promissory note with the Company's CEO for $500 who is a director and officer of the Company. This promissory note bears interest at 4% per annum. The promissory note and related interest will be forgiven by the Company if the CEO is employed with the Company on the maturity date of September 3, 2016. If the CEO resigns prior to September 3, 2016, the promissory note and related interest is repayable on demand. In addition, a private placement for 782,227 common shares at a price of $0.64 and 782,227 warrants at a price of $0.75 was completed with the CEO on August 14, 2012. The Company is recording these transactions as share based compensation. The fair value of the common shares and warrants are being recognized over the term of the promissory note. The Company has not recorded a loan receivable or interest income related to the promissory note. The Company determined the fair value of the common shares issued based on the quoted market price of the shares on August 14, 2012 of $0.75 per share. The Company determined the fair value of the warrants to be $0.48 per warrant using the Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	89%
Risk-free interest rate	1.33%
Expected life in years	4
Share price at date of issue	$0.75
Forfeiture rate	Nil

On August 14, 2012, the Company issued 615,000 restricted share units to management and employees which entitles the holders to 615,000 common shares of the Company over a four year vesting period. These restricted share units have been fair-valued based on the quoted market price on the date of issuance of $0.75 per share.

(in thousands of Canadian dollars)

18. Shareholders' Equity and Earnings per Share - continued

On August 14, 2012, the Company issued 50,000 stock options to management and employees. These options have been fair-valued at $0.49 per option using the Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	96%
Risk-free interest rate	1.37%
Expected life in years	3.7
Share price at date of issue	$0.75
Forfeiture rate	8%

On April 2, 2012, the Company issued 1,875,000 stock options to management and employees. These options have been fair-valued at $0.61 per option using the Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	95%
Risk-free interest rate	1.47%
Expected life in years	3.6
Share price at date of issue	$0.95
Forfeiture rate	6%

There were 6,514,000 stock options issued to management and employees in the year ended December 31, 2011. The options have been fair valued using the Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	94% - 119%
Risk-free interest rate	1.03% - 2.36%
Expected life in years	3 - 4.5
Share price at date of issue	$1.66 - $1.88
Forfeiture rate	5% - 8%

Earnings per share

Earnings per share has been calculated on the basis of net income for the period divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share, for all periods presented, was calculated based on the weighted average number of common shares outstanding and takes into account the effects of share options, warrants and convertible debt outstanding during the period. Earnings per share is not adjusted for anti-dilutive instruments. The weighted average calculation is based on a time weighting factor that includes all share options, warrants and conversion features that were issued at prices lower than the market price of the Company's common shares at the respective period-ends.

(in thousands of Canadian dollars)

18. Shareholders' Equity and Earnings per Share - continued

The following table illustrates the dilutive effect of the outstanding share options, convertible debt and warrants for the years ended December 31, 2012 and 2011.

	Years ended December 31,	
	2012	2011
Basic weighted average shares outstanding	**114,139,996**	80,656,105
Dilutive effect of unvested shares	**—**	750,000
Dilutive effect of share options	**1,091,139**	2,598,992
Dilutive effect of warrants	**13,661,317**	16,563,159
Dilutive effect of convertible debt	**25,177,932**	1,922,551
Diluted shares outstanding	**154,070,384**	102,490,807

Included in basic weighted average shares outstanding for the years ended December 31, 2012 are 3,413,459 of common shares which are being released to vendors of acquisitions over a specified period of time. There are no performance conditions associated with these shares.

19. Financial Instruments

During the year ended December 31, 2012, the Company's financial instruments consisted of cash, trade and other receivables, loans receivable, trade and other payables, its borrowings, related party loan, convertible loans, derivative liabilities associated with convertible loans and interest rate swaps.

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

- *Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities*
  Fair value is determined based on quoted prices of regularly and recently occurring transactions take place.

- *Level 2: Inputs that are observable for the assets or liabilities either directly or indirectly*
  This level of the hierarchy includes cash derivative financial instruments with major Canadian chartered banks.

- *Level 3: Inputs for assets or liabilities that are not based on observable market data.*
  This level of the hierarchy includes contingent consideration settled with the Company's shares.

	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Cash and cash equivalents	—	594	—	**594**
Contingent consideration	—	—	16,969	**16,969**
Derivative financial instruments	—	823	8,409	**9,232**
	—	1,417	25,378	**26,795**

(in thousands of Canadian dollars)

19. Financial Instruments - continued

The carrying value of financial assets and financial liabilities that are measured at cost or amortized cost and approximate their fair values and include the following:

	December 31, 2012	December 31, 2011
	$	$
Financial assets measured at cost or amortized cost		
Trade and other receivables	**58,325**	40,495
Loans receivable	**444**	973
Financial liabilities measured at cost or amortized cost		
Trade payables and other amounts	**66,186**	44,760
Finance lease liability	**1,167**	2,347
Borrowings	**204,188**	184,377
Preferred partnership units	**65,500**	65,500

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 sale of goods and services and are owed to the Company by the Workplace Safety and Insurance Board, government agencies, employers, insurance companies and individual patients.

Trade and other receivables aging was as follows:

	December 31, 2012	December 31, 2011
	$	$
0 - 30 days	**34,948**	27,433
31-60 days	**10,652**	4,374
61-90 days	**3,750**	1,346
Over 90 days	**8,975**	7,342
	58,325	40,495

Included in trade and other receivables at December 31, 2012 is $15,475 (December 31, 2011 - $4,707) of government funding of amounts receivable for products sales and accrued receivables for services for which the services or product sales have been rendered but not yet billed at year end. Also, included in trade and other receivables at December 31, 2012 is $128 for a loan with a director and officer of the Company as described in note 17.

(in thousands of Canadian dollars)

19. Financial Instruments - continued

The movement in the provision for impairment against trade and other receivables was as follows:

	December 31, 2012	December 31, 2011
	$	$
Provision, beginning of year	**1,090**	85
Opening provision balance from acquisitions	**1,932**	928
Increases to the valuation allowance	**927**	789
Write-offs charged to the valuation allowance	**—**	(712)
Provision, end of year	**3,949**	1,090

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

The following table presents the contractual terms to maturity of the financial liabilities owned by the Company as at December 31, 2012:

	Total	1 year	2-3 years	4-5 years	Thereafter
	$	$	$	$	$
Trade payables and other amounts	**66,186**	66,186	—	—	—
Term Loan and Revolving Facility	**172,977**	15,000	157,977	—	—
Preferred partnership units	**65,500**	—	65,500	—	—
Finance leases	**1,167**	911	256	—	—
Interest payments on borrowings	**18,532**	7,425	11,107	—	—
Operating leases	**69,787**	13,653	21,958	16,226	17,950
	394,149	103,175	256,798	16,226	17,950

In addition, the Company has a contractual obligation to pay Alaris annual distributions. This amounts is currently $7,020 and increases at a rate of 4% each year. The principal amount grows at 4% annually from the third anniversary from the LifeMark closing on June 9, 2011. Redemption of the preferred partnership units cannot occur until after June 9, 2013. There is no obligation for the Company to redeem these units. Subject to agreements with senior lenders and the availability of financing at a lower interest rate, the Company intends to redeem the preferred partnership units prior to the third anniversary.

The Company incurs interest on its Revolving Facility. Future interest to be paid on the revolving facility cannot be reasonably determined due to the ongoing fluctuation of the revolving facility balance.

The Company incurs monthly interest payments on its interest swaps. These interest rate swaps are tied to market conditions and as such interest to be paid from the interest rate swap cannot be reasonably determined.

The Company has $5,000 in convertible debt with a related party and $53,388 in convertible debt from public and private offerings which principal and interest the Company can elect to settle in common shares of the Company.

(in thousands of Canadian dollars)

19. Financial Instruments - continued

In the normal course of business, the Company enters into significant commitments for the purchase of goods and services, such as the purchase of inventory, most of which are short-term in nature and are settled under normal trade terms.

Interest Rate Risk
Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. The Company is exposed to interest rate risk through its floating rate Term Loan and Revolving Facility, whose interest rates are based on prime. The significant increase in interest-bearing debt for the year ended December 31, 2012 has increased the interest rate risk of the Company. In order to mitigate interest rate risk, the Company entered into an interest rate swap on $100,000 of its outstanding debt exchanging its variable rate debt for a fixed rate of 5.12%. The interest rate swap term is four years, coterminous with the existing term loan. In addition, the Company acquired a swap with its acquisition of LifeMark on approximately $18,000 of debt exchanging its variable rate for a fixed rate of 3.0% which matures on March 31, 2015.

As at December 31, 2012, 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 $730.

Currency Risk
Virtually all of the Company's transactions are denominated in Canadian dollars. At December 31, 2012 and 2011, the Company held no significant financial instruments that were denominated in other than Canadian currency.

20. Commitments

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

	December 31, 2012	December 31, 2011
	$	$
Less than one year	**13,653**	9,041
Between one and five years	**38,184**	19,965
More than five years	**17,950**	8,020
Total	**69,787**	37,026

In the normal course of business, the Company enters into significant commitments for the purchase of goods and services, such as the purchase of inventory, most of which are one to three years in nature and are settled under normal trade terms.

Operating lease expenses for the year ended December 31, 2012 were $24,831 (December 31, 2011 - $11,170).

(in thousands of Canadian dollars)

21. Contingencies

From time to time the Company is involved in litigation, investigations or proceedings related to claims arising out of its operations in the ordinary course of business. The Company believes that these claims and lawsuits in the aggregate, when settled are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

22. Segmented Information

The Company has organized its operations based on the various products and services that it offers. The consolidated operations of the Company comprise five reportable operating segments referred to as: (i) Physiotherapy; ii) Pharmacy; (iii) Surgical; (iv) Assessments; and, (v) Retail and Home Medical Equipment.

Certain general and administrative corporate costs have been allocated to the reportable segments based on the extent of corporate management's involvement in the reportable segment during the period. Those costs that generally represent the costs associated with a publicly-listed entity, as well as legal fees, due diligence, advisory fees and related mergers and acquisition-related services provided by independent third parties have been reported in the Corporate reportable segment.

	As at and for the year ended December 31, 2012						
	Physiotherapy $	Pharmacy $	Retail & Home Medical Equipment $	Assessments $	Surgical $	Corporate $	Total $
Revenue	176,726	92,769	96,445	37,210	33,501	—	436,651
Depreciation and amortization	13,442	8,641	6,296	4,514	2,156	392	35,441
Interest expense	—	—	—	—	—	24,350	24,350
Income (loss) before interest expense and income taxes[8]	12,279	1,015	554	2,206	1,030	(663)	16,421
Capital expenditures	3,416	1,793	1,865	719	647	—	8,440
Goodwill	115,368	30,803	20,603	32,457	14,114	—	213,345
Total assets	139,052	91,366	131,032	54,280	40,547	29,710	485,987
Total liabilities	34,355	8,091	17,878	19,466	5,340	306,516	391,646

[8] Included in the income before interest expense and income taxes for the Corporate segment is $51,164 of a non-cash gain from the net decrease in the fair value of the contingent consideration liability for the period, $27,421 of non-cash impairment charges, $11,422 in transaction and restructuring costs and $1,947 of non-cash gains from the change in fair value of derivative financial instruments.

(in thousands of Canadian dollars)

22. Segmented Information - continued

	As at and for the year ended December 31, 2011						
	Physiotherapy $	**Pharmacy $**	**Retail & Home Medical Equipment $**	**Assessments $**	**Surgical $**	**Corporate $**	**Total $**
Revenue	112,307	19,235	6,170	35,654	27,626	—	200,992
Depreciation and amortization	6,746	645	727	2,459	3,834	162	14,573
Interest expense	—	—	—	—	—	12,245	12,245
Income before interest expense and income taxes[9]	6,713	977	654	3,847	(512)	(10,330)	1,349
Capital expenditures	1,572	480	—	50	1,126	1,203	4,431
Goodwill	111,129	22,851	17,023	32,457	21,835	—	205,295
Total assets	217,233	73,302	40,902	61,000	39,746	4,508	436,691
Total liabilities	3,689	5,740	393	2,285	3,721	360,473	376,301

[9] Included in the income before interest expense and income taxes for the Corporate segment is $60,078 of a non-cash gain from the net decrease in the fair value of the contingent consideration liability for the period, $52,801 of non-cash impairment charges, $8,181 in transaction and restructuring costs and $1,396 of non-cash losses from the change in fair value of derivative financial instruments.

23. Supplementary Disclosure to the Consolidated Statements of Cash Flows

The net change in non-cash working capital comprises the following:

	Years ended December 31,	
	2012 $	2011 $
Trade and other receivables	**2,967**	6,402
Inventories	**(4,562)**	(4,280)
Prepaid expenses	**(14)**	649
Trade payables and other amounts	**(9,159)**	(6,362)
	(10,768)	(3,591)

24. Comparative Figures

For the year ended December 31, 2011, the Company has reclassified $1,895 that had previously been reported as the equity portion of convertible borrowings as $1,603 as the derivative liability portion of convertible borrowings, $403 as share capital, $264 as warrants offset by a reduction in borrowings of $375. For the year ended December 31, 2011, the Company has reclassified $628 of computer software from property and equipment to intangible assets. For the year ended December 31, 2011, the Company has reclassified $31,570 of intangible assets from goodwill as a result of the finalization of the purchase price allocation for the acquisitions of Classic Care and Performance.

25. Subsequent Events

On March 21, 2013, the Company amended its lending agreement with its senior lenders as described in note 11.

On March 21, 2013, subject to approval of the shareholders of the Company on May 9, 2013, GHIS and the Company negotiated an amended consulting agreement which eliminates the completion fee, removes the consulting fee for the year ended December 31, 2013, and amends the consulting fee to $75 per month from January 2014 to the completion of the agreement in June 2015. The Company expects to issue an equivalent of $2,150 in common shares of the Company to GHIS based on the five day value weighted average of the Company's share price immediately following the announcement of the Company's 2012 annual results. The total number of common shares to be issued will not exceed 5,000,000 and will be subject to a one year hold period unless the Company's Board of Directors approves an earlier release date. In addition, on March 21, 2013, GHIS waived their consulting fees for the fourth quarter of 2012.