Management's Discussion and Analysis
For the years ended December 31, 2013 and 2012

Dated: March 31, 2014

Index

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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 2014 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 MD&A.

The following is a discussion of the consolidated financial position and the income and comprehensive income of Centric Health Corporation, ("Centric Health" or the "Company") for the years ended December 31, 2013 and 2012 and of certain factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2013 and 2012. The audited consolidated financial statements for the years ended December 31, 2013 and 2012 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 audited consolidated financial statements for the years ended December 31, 2013 and 2012. 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 31, 2014. 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, 2013

Financial Performance

Revenue increased to $455.9 million for the year ended December 31, 2013 from $436.7 million for the same period in the prior year due to organic growth in the Pharmacy and Assessments segments and the acquisition of Motion Specialties Inc. ("Motion Specialties") in February 2012, offset by the regulatory changes in Ontario for seniors physiotherapy services which took effect in August 2013. For the year ended December 31, 2013 Adjusted EBITDA[1] was $33.6 million as compared to $42.8 million for the year ended December 31, 2012. The Company's Adjusted EBITDA mainly decreased due to a non-recurring, non-cash adjustment arising from the Company's year end physical inventory count and valuation for Motion Specialties. Excluding the impact of the non-recurring, non-cash adjustment of approximately $7.8 million, Adjusted EBITDA would have been $41.4 million for the year ended December 31, 2013.

For the three month period ended December 31, 2013, revenue decreased to $109.8 million compared to $110.9 million in the prior year, due principally to the impact of regulatory changes in Ontario for seniors physiotherapy services and the impact of a perceived conflict of interest matter that impacted Motion Specialties in the fourth quarter, partially offset by organic growth in other segments. Adjusted EBITDA was $6.2 million (5.6% of revenue) for the quarter ended December 31, 2013 compared to $9.6 million (8.6% of revenue) for the fourth quarter in the prior year. This decrease was a result of the impact of regulatory changes in August 2013 imposed by the Ontario Ministry of Health and Long Term Care ("MOHTLC") on physiotherapy services for seniors and a perceived conflict of interest matter raised by the MOHTLC which impacted Motion Specialties. In addition, the decrease related to the fourth quarter impact of approximately $1.9 million from a non-recurring, non-cash adjustment to the inventory and cost of sales of Motion Specialties, offset by organic growth initiatives in most segments. The Company continued its focus on operational and working capital initiatives in the fourth quarter of 2013 which resulted in positive cash flow from operations for the seventh consecutive quarter and total cash flow generated from operations of $20.2 million in 2013.

The Company has previously demonstrated its resolve to overcome regulatory setbacks. The Company has rebounded from the regulatory reforms implemented in Ontario on the Assessments industry in the fall of 2010. In response to those regulatory reforms, the Company consolidated its assessment centres and reduced head count and this segment is now realizing the benefits of these efforts. The Company has gained market share through numerous successful requests for proposals ("RFPs") given its national network and quality services. Adjusted EBITDA for the Assessments segment was $2.3 million and $8.5 million for the three month period and year ended December 31, 2013 as compared to $1.7 million and $6.7 million for the same periods in the prior year. Moreover, the Adjusted EBITDA margin for this segment has improved to 24.2% and 23.1% from 19.8% and 18.1% for the three month period and year ended December 31, 2013, respectively.

Perceived Conflict of Interest

In light of recent determinations by the MOHLTC surrounding a perceived conflict of interest between the Company’s Home Care and Senior Wellness businesses (the “Operations”) and its retail and home medical equipment operations, the Company has made a decision to sell the non-retail Operations, both of which are largely funded by the MOHLTC.

The perceived conflict of interest is a result of Centric Health employing and contracting physiotherapists for the Operations who are Registered Authorizers under the MOHLTC’s Assisted Device Program (“ADP”), which provides patients with funding for mobility equipment, while at the same time seeking reimbursement from ADP for referrals of retail and home medical equipment product sales from these authorizers. While the Company has engaged extensively with the MOHLTC to address the matter of a perceived conflict, management now believes that it is in the best interests of its customers, the affected physiotherapists and the Operations generally that the Company take decisive action to resolve the matter expeditiously.

In order to address the perceived conflict, Centric Health has entered into a definitive agreement to sell 100% of the common shares of its Home Care business, Community Advantage Rehabilitation, Inc. (“CAR”), to an arm’s length third party purchaser for proceeds of $2.5 million, subject to certain adjustments. The purchase price will be satisfied by the issuance of an eight-year note. The note is expected to bear interest at 12% per annum, subject to adjustment, payable monthly. Completion of the purchase and sale transaction is subject to certain healthcare regulatory consents, as well as customary closing conditions.

Centric Health is also currently pursuing the sale of its Seniors Wellness operations and believes that it will be able to complete a similarly structured sale for this business.

This perceived conflict of interest has had a downward impact on revenues and Adjusted EBITDA of the Retail and Home Medical Equipment segment for the fourth quarter as a result of lower ADP related referrals during this period. Referrals are expected to progressively increase to historical levels once this perceived conflict is resolved. The MOHLTC's determination of a perceived conflict has no impact on the Company's Physiotherapy clinic network, where fees are paid privately by insurance companies and individuals.

Financing

Consistent with the Company's objective of strengthening its balance sheet, on April 18, 2013, the Company completed a $200 million public offering of second lien senior secured notes which bear interest at 8.625% and mature on April 18, 2018. The Company used the proceeds from this offering to repay $184.5 million of its Term Loan and Revolving Facility and $10 million of preferred partnership units. On April 18, 2013 the Company also entered into an amended and restated credit agreement with its senior lenders. The amended and restated agreement revised the Company's Revolving Facility to a maximum borrowing limit of $50 million which matures and is payable on June 9, 2015. The Company utilized $20 million of the amended and restated Revolving Facility to repay preferred partnership units for a total repayment of $30 million of the Company's most expensive debt. The Company's new debt structure, which does not require principal repayments until maturity, along with the repayment of preferred partnership units completed in 2013 has provided the Company with an additional $10 million in free cash flow on an annualized basis.

As a result of recent developments, on March 27, 2014, the Company and its senior lenders amended the Revolving Facility, which included amendments to certain financial performance covenants for 2014 and beyond.

Acquisition

On December 2, 2013, the Company acquired 75% of the shares of SmartShape Weight Loss Centres ("SWLC"). SWLC provides state-of-the-art bariatric (weight loss) surgical procedures and is located in Mississauga, Ontario within an existing surgical facility. The total purchase price consideration includes a combination of cash consideration of $1.6 million, 1,075,000 common shares to be released based on SWLC achieving targets over a two year period and warrants to purchase up to 600,000 common shares of the Company calculated based on the out performance of certain targets.

Related Party Transactions

On May 9, 2013 the Company's shareholders approved an amended consulting agreement between the Company and Global Healthcare Investments and Solutions, Inc. ("GHIS") which eliminates completion fees, removes consulting fees for the year ended December 31, 2013, and amends consulting fees to $75 per month from January 2014 to the completion of the agreement in June 2015. The Company issued 4,802,311 common shares to GHIS on July 3, 2013 as part of this agreement, which is an equivalent of $2.15 million in common shares of the Company at $0.45 per share which was the five day value weighted average of the Company's share price immediately following the announcement of the Company's 2012 annual results on March 28, 2013. These common shares are subject to a one year trading hold period unless the Company's Board of Directors approves an earlier date. This transaction provides the Company with $2.5 million in cash flow savings over the remaining term of the consulting agreement.

In November 2013, the Company renegotiated its $5 million convertible debt arrangement with Jamon Investments LLC ("Jamon"), a related party, whereby this convertible debt will now have a maturity date of April 30, 2018. The note will be convertible at the option of the holder at $0.46. There will be one million warrants which will also be exercisable at the above noted conversion price and will expire on April 30, 2018. This renegotiation preserves $5 million in cash flow which otherwise would have been payable to Jamon in the fourth quarter of 2013.

People

In 2013, the Company's President and Chief Executive Officer, David Cutler, announced the appointments of Daniel Gagnon as Chief Financial Officer, Chris Dennis as Chief Operating Officer and Jim Black as Chief Information Officer. The Company also strengthened its Board of Directors with the appointment Camillo Di Prata as an independent director and member of the Company's Audit Committee and Human Resources Committee and Yazdi Bharucha as an independent director and chair of the Audit Committee. In January 2014, Chris Dennis was appointed as interim President of the Company's Retail and Home Medical

Equipment segment, in addition to his role as the Company's Chief Operating Officer. On March 31, 2014, the Company announced that Chris Dennis will be leaving his role as the Company's Chief Operating Officer to permanently assume the role as President of the Company's Retail and Home Medical Equipment segment.

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

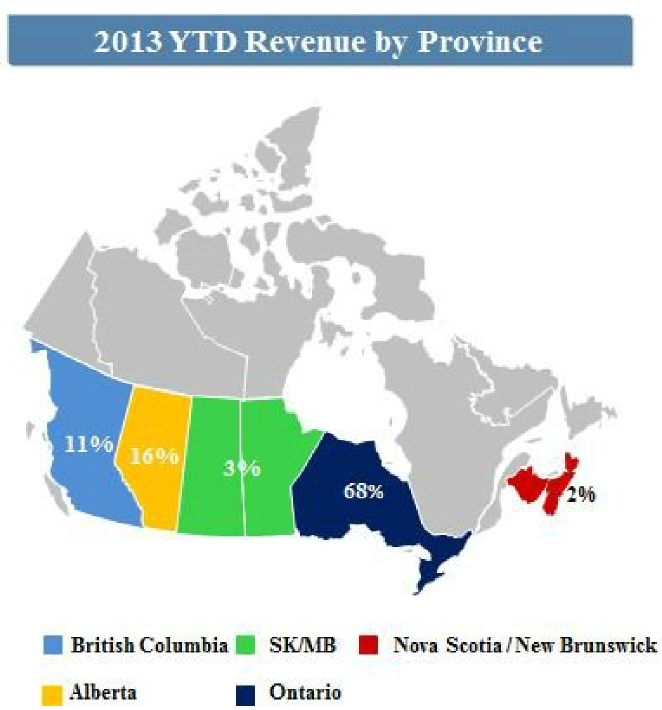
Business Overview

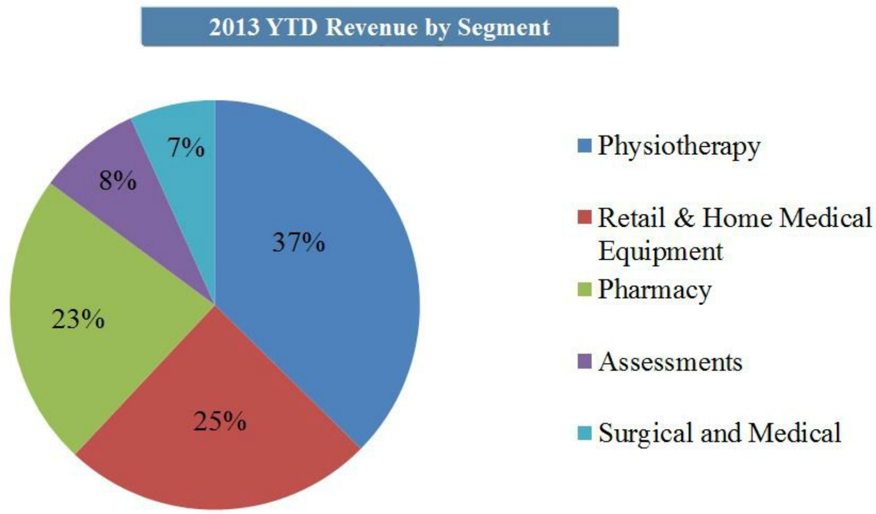
Centric Health Corporation is a Canadian healthcare services company with the largest healthcare services platform and networks across Canada in physiotherapy, assessments, seniors' wellness, surgical and medical centres, specialty pharma, orthotics and home medical equipment. The Company reaches approximately 750 locations across Canada, has 19 surgical operating rooms and provides services to long-term care and retirement home beds through its more than 3,000 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 organic growth opportunities, mergers and accretive acquisitions. Centric Health's organic growth initiatives are primarily focused on healthcare sectors that not only demonstrate compelling growth prospects but also present synergies, rationalization and cross-selling benefits which will create meaningful stakeholder value with an overarching **focus on quality care to our patients**. Centric Health's acquisitions are targeted towards entrepreneurial companies with a successful track record and intellectual property. 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, 2013 by province and segment are denoted below.



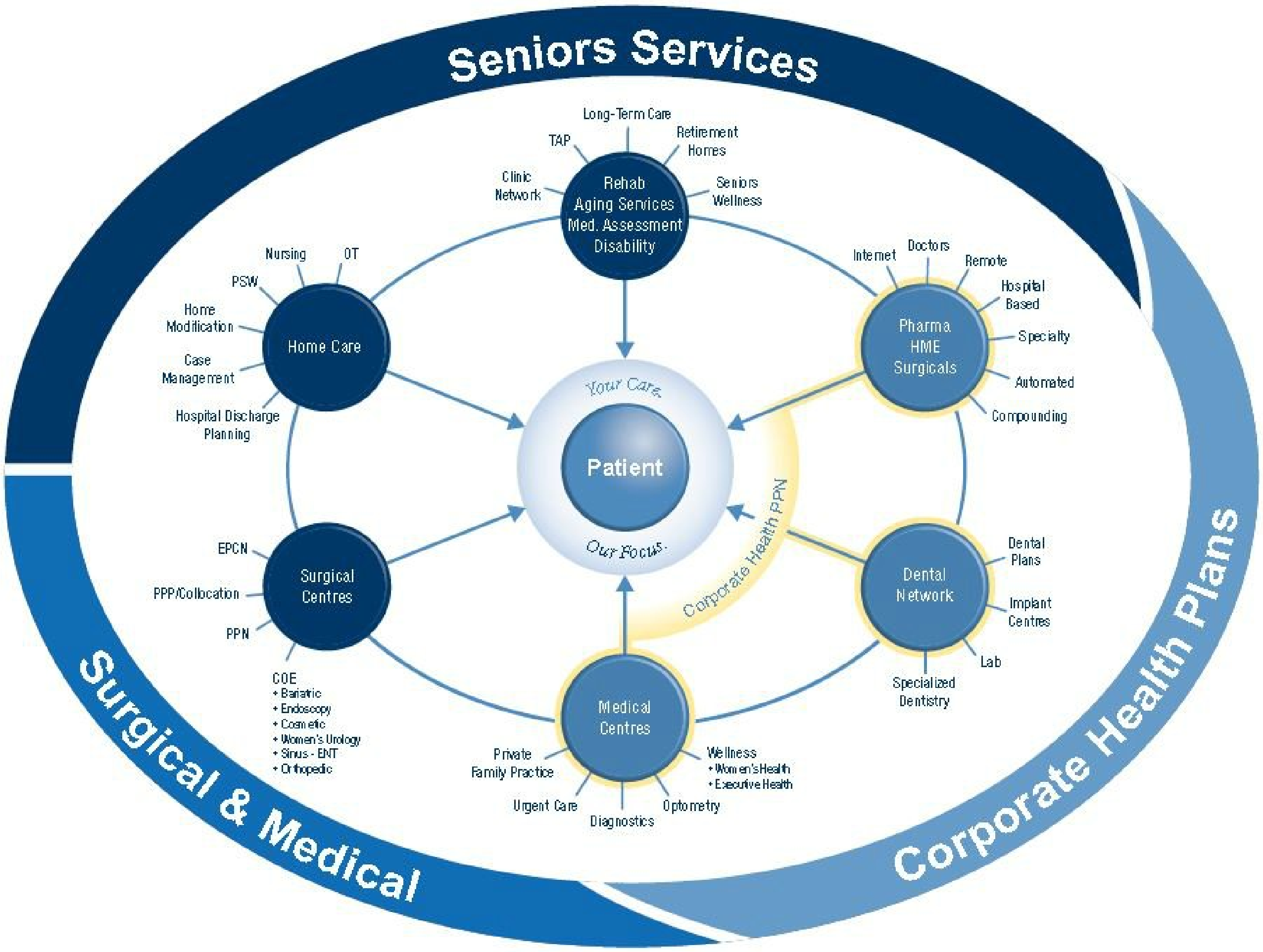


Centric Health has a strategic focus to differentiate its services and product offerings by partnering with healthcare professionals and employees to achieve clinical excellence with a focus on the highest standards of care. Centric Health's long-term objective is that management, staff and healthcare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

The Company has assembled a strong senior management team that is focused on harnessing the earnings potential of the Company's platform. The senior leadership team has now been in place for a sufficient time period to fully understand, analyze and evaluate the Company's businesses individually and as a group. It has evaluated the businesses in the context of the key factors relevant to the success of a Canadian healthcare services company, its core competencies and best opportunities, as well as the evolving nature of the regulatory environments within which it operates. Going forward, senior leadership will continue to focus on optimization of the platform to minimize working capital requirements, generate strong cash flows, limit regulatory risk and maximize long-term potential, with the objective of generating long-term value for shareholders.

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

Diversified Healthcare Portfolio Strategy

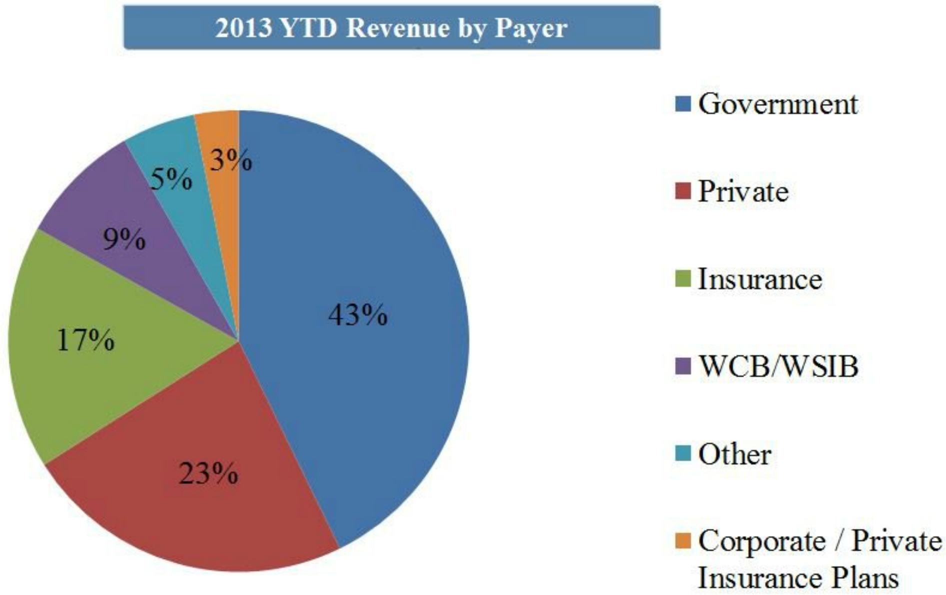


The Company's primary focus areas and target markets are as follows:

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.

In 2013, the Company achieved five Three - Year Accreditations with CARF including:

- Seniors Wellness for the Home and Community Services Program;
- Clinic Operations in Nova Scotia and Ontario for the Interdisciplinary Pain Rehabilitation and Occupational Rehabilitation Programs;
- Medical Assessments for the Independent Evaluation Services Program. This is a first time achievement in Canada and Centric Health is one of only three organizations in the world to be accredited for this new CARF program; and
- Home Care for the Home and Community Services Program.

Each survey report included a number of strengths for Centric Health including consistent themes for:

- evidence of a strong commitment by Centric Health to the growth and development of its new acquisitions;
- an atmosphere of mutual respect and congeniality between treatment staff and persons served. Each person served interviewed said how much they appreciate staff members' ability to address their rehabilitation needs and educate them in a manner that is both instructive and respectful; and
- referral sources and payers that expressed high satisfaction with the services provided, particularly with the outcomes achieved for persons served. These stakeholders consider Centric Health the provider of choice for care of their injured clients.

Additionally, in the first quarter of 2014, Motion Specialties became the first CARF accredited respiratory homecare service provider in Canada.

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 licensing which is not always readily available.

Business Outlook

Centric Health has amassed an unparalleled Canadian national healthcare platform with significant potential for future expansion and growth. During the first half of 2013 under the direction of CEO David Cutler, a new senior leadership team was appointed. Centric Health's new CFO, Daniel Gagnon, played a leading role in strengthening the Company's balance sheet through a $200 million prospectus supplement for second lien senior secured notes. Moreover, Mr. Gagnon completed a restructuring of the finance department which resulted in a 30% decrease in head count through centralization and improved processes. Additionally, a more advanced budgeting tool and enhanced management reporting has been implemented during his first year with the Company. Jim Black, the Company's new CIO, is overseeing the implementation of an end to end operating system for the Company's Retail and Home Medical Equipment segment. The Company completed successful pilot launches in September 2013 and February 2014 and expects to have this leading edge system in place across its network of corporate stores by the end of 2015. The Company's new COO, Chris Dennis, began his tenure focused on positioning the Company's underperforming Surgical segment for long-term success. Efforts in the Surgical segment have included the appointment of new operations leaders for Surgical Eastern Canada and Surgical Western Canada, the launch of low capital investment ventures, and the recruitment of new surgeons and physicians. Mr. Dennis has since turned his attention to the Company's Retail and Home Medical Equipment segment as he was named the the permanent President of Motion Specialties on March 31, 2014. In addition, in order to better integrate operations and drive efficiency across the entire organization, Mr. Dennis launched an operations shared service centre focused on marketing initiatives and RFP management.

The Company's senior leadership team has now been in place for a sufficient time period to fully understand and analyze and evaluate the Company's businesses individually and as a group. It has evaluated the businesses in the context of the key factors relevant to the success of a Canadian healthcare services company, as well as its core competencies and best opportunities. Senior management has determined that it is in the best interests of the Company and its shareholders to focus on long-term opportunities in core businesses in the pursuit of top-line growth, improved profitability and free cash flow generation.

In the fourth quarter of 2013, the Company's Board of Directors formed a sub-committee to review the performance and long-term strategic plans for Motion Specialties. This sub-committee was formed due to the underperformance of this business since its acquisition in February 2012. The appointment of this sub-committee and Mr. Dennis as President, along with other leadership changes within the Retail and Home Medical Equipment segment, signals the Company's focus on upgrading the leadership skills within this segment and to harness the vast potential of this segment given the market which it serves.

The MOHLTC's recently determined that a perceived conflict of interest exists between the Company's Home Care and Seniors Wellness operations and the Company's retail operations. The perceived conflict of interest matter is a result of the Centric Health employing and contracting physiotherapists in these businesses who are Registered Authorizers under the MOHLTC's ADP program, which provides patients with funding for mobility equipment, while at the same time seeking reimbursement from ADP for referrals of retail and home medical equipment product sales from these authorizers. This perceived conflict of interest has limited the ability of the Seniors Wellness operations to sign new contracts and is extending the recovery period for these operations. This perceived conflict of interest has had a downward impact on the revenues and Adjusted EBITDA of the Retail and Home Medical Equipment segment in the Company's fourth fiscal quarter, as a result of lower ADP related referrals during this period. Referrals are expected to progressively increase to historical levels once this perceived conflict is resolved. In order to address the perceived conflict, Centric Health has entered into a definitive agreement to sell 100% of the common shares of its Home Care business, CAR, to an arm's length third party purchaser for proceeds of $2.5 million, subject to certain adjustments. The purchase price will be satisfied by the issuance of an eight-year note. The note is expected to bear interest at 12% per annum, subject to adjustment, payable monthly. Completion of the purchase and sale transaction is subject to certain healthcare regulatory consents, as well as customary closing conditions. The Company is also currently pursuing the sale of its Seniors Wellness operations and believes that it will be able to complete a similarly structured transaction for this business.

Notwithstanding the regulatory and inventory related challenges in 2013, the Company showed steady organic growth with the clinic portion of the physiotherapy segment and the Assessments segment while the Surgical segment started to rebound from challenges in the latter half of 2012. However, the Company faced financial pressures from the change in funding for seniors' physiotherapy services by the government of Ontario which took effect on August 22, 2013. The Company estimates that the impact of these regulatory changes on Adjusted EBITDA for fiscal 2013 was approximately $4 million. The Company has responded to these regulatory changes by focusing on expanding the number of beds serviced in retirement and long-term care homes through the Company's bundled services initiatives. The Company's goal is to ensure that seniors continue to receive quality care and outcomes whether in retirement and long-term care homes or in the community. In spite of a growth in revenues, the Company experienced a decline in Adjusted EBITDA for its Retail and Home Medical Equipment segment. This decline was highlighted by an approximate $7.8 million non-recurring, non-cash adjustment as a result of the annual physical inventory count and valuation for the Company's corporate retail and home medical equipment locations. As a result of the lack of integration between the purchasing and sales cycles at Motion Specialties, the Company has adopted a quarterly count procedure to ensure reported margins are accurately monitored and reported. As integration work continues to improve systems and related policies and procedures, the quarterly count procedure will be continued until all stores have been successfully migrated to a perpetual inventory system with appropriate controls and practices, including regular cycle count procedures. At this time, the Company expects to implement the perpetual inventory system to cover approximately half of the aggregated inventory value of all Motion and MEDIchair corporate stores by the end of the current fiscal year. The Company is also exploring other alternatives to further expedite the automation of inventory tracking and reporting.

The Company continues to focus on strengthening its balance sheet. In 2013, the Company completed a $200 million prospectus supplement for second lien senior notes which replaced the Company's previous senior debt with more favorable terms, renegotiated its Revolving Facility, repaid $30 million of preferred partnership units which is the Company's most expensive debt, renegotiated its convertible loan with Jamon to preserve $5 million in cash flow and realized its seventh consecutive quarter of positive cash flow from operations. In March 2014, the Company also amended its Revolving Facility which included amendments to certain financial performance covenants which provides the Company with greater financial flexibility for 2014 and beyond. The Company's debt profile has improved as it does not have a debt principal repayment due until June 2015, which is its Revolving Facility, which currently has an outstanding balance of $23 million. Moreover, with the exception of the recently renegotiated loan with Jamon, which is a related party, all of the Company's convertible debt offerings can be settled in common shares at the discretion of the Company. The Company's new debt structure which does not require principal repayments until maturity along with the repayment of preferred partnership units completed in the second quarter has provided the Company with an additional $10 million in free cash flow on an annualized basis. The Company anticipates that, based on meeting its 2014 operating budget, it will generate sufficient cash flow from operations in the remainder in 2014 to meet its obligations as they come due.

The Company's principal focus in 2013 has been on organic growth initiatives. Many organic growth initiatives were commenced in 2013 and tend to have a long sales cycle. As such, the Company does not expect to begin to realize the benefits of these initiatives until the second half of 2014 and beyond. In the third quarter of 2013, the Company launched its first Triage Assessment Program at the Rouge Valley hospital in Toronto, entered into a strategic alliance with Vancouver Imaging, launched an extended patient choice network and surgical centres of excellence in nasal and sinus and women's urology. Cross-selling initiatives include expanding orthotic sales in physiotherapy clinics and Motion Specialties and MEDIchair stores and promoting rehabilitative services to surgical patients to expedite recovery.

The Company also continues to assess potential strategic acquisitions that will bolster its existing national platform, however any such acquisitions must provide an appropriate return relative to any investments which the Company incurs to complete the acquisition and the return is expected to be in excess of the Company's risk adjusted weighted average cost of capital including cross platform pollination benefits. In the fourth quarter of 2013, the Company completed the strategic acquisition of SWLC which will expand the Company's bariatric footprint across its surgical locations.

The Company's focus on improving its operating margins through right-sizing activities and operational efficiency projects is on-going. The Company expects to realize further margin benefits in the surgical segment as excess operating room capacity decreases and in the retail and home medical segment as it realizes the benefits from a significant IT implementation which is expected to be completed for half of its consolidated inventory by the end of 2014 with the balance completed for the end of 2015.

Physiotherapy

The Company was impacted by funding model changes announced by the Ontario MOHLTC enacted in August 2013 related to physiotherapy services for seniors. The Company has taken proactive steps through existing and new revenue streams to mitigate the impact to its business resulting from changes to the funding model. The vast majority of the Company's existing long-term care homes have verbally committed or contractually agreed to continuing to outsource their physiotherapy service contracts with Centric Health under the new funding model, which pays the homes directly on an annual fee-per-bed basis. The fee is $750 per bed per annum, which equates to approximately half of the previous fees billed. In addition, the Company is pursuing opportunities through private pay services of rehabilitation and other ancillary services to retirement homes, and publicly funded physiotherapy services. It is expected that the average number of annual treatments per resident will be significantly reduced but reimbursed at a higher tariff. Other reimbursement alternatives are being explored. In addition, the Company has implemented a cost containment program to restore the division's profit margins while focusing on the delivery of high quality patient care. The Company is currently pursuing the sale of its Seniors Wellness operations in light of the perceived conflict of interest matter raised by the MOHLTC.

The Company continues to focus on growth in the physiotherapy segment from the Company's rehabilitative clinics through organic expansion initiatives. In addition, the Company further expanded its preferred provider relationships with employers and other organizations. The Company also recently launched a pilot Triage Assessment Program at the Rouge Valley Hospital in Toronto. The Company is also seeking to increase its local marketing initiatives in order to increase the volume of patient visits. Growth through the acquisition of additional rehabilitation clinics will only occur if the acquisition will be accretive to income and complementary to the Company's national network.

Pharmacy

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 strategy. Revenues for the Company's pharmacy operations are expected to increase in 2014 due to organic growth through tenders for contracts, retail initiatives, bundled service offerings, and maximizing the utilization of existing infrastructure. Adjusted EBITDA margins have returned to historical levels and are expected to be maintained in upcoming quarters as the non-recurring costs to implement Electronic Medical Administrative Records ("EMAR") for existing long-term care home contracts have mainly been incurred.

Retail and Home Medical Equipment

The Company's Retail and Home Medical Equipment segment has experienced revenue growth in 2013 and while this growth is expected to continue in 2014, it will be at a lower rate until the Company's perceived conflict of interest matter is resolved. The Company is also focusing on revenue streams which will drive stronger Adjusted EBITDA. The Adjusted EBITDA for this segment has not reflected its top-line growth as the Company has invested in revenue generating personnel for initiatives with a longer sales cycle. The benefits of these investments are not expected to be fully realized until the fourth quarter of 2014. Motion Specialties reduced head count both in the second quarter of 2013 and in the first quarter of 2014 through attrition and restructuring in order to better align its resourcing needs. Adjusted EBITDA was also impacted by an approximate $7.8 million non-recurring, non-cash adjustment as a result of the annual physical inventory count and valuation for the Company's corporate stores.

The Company's new leadership team has reviewed the operations of Motion Specialties and has validated the long term strength of this business, however the extent of addressing short-term challenges will take longer than originally anticipated. These challenges include integration within the Motion Specialties network of retail stores and with the Centric Health's core operating and financial systems, reducing discretionary spending through bulk-purchasing initiatives and spending caps and implementation of operational best practices across the network of retail stores. In the first quarter of 2014, the Company took major steps to upgrade the leadership of Retail and Home Medical Equipment segment by replacing several of this segment's previous leaders including the appointment of Chris Dennis, who stepped down as the Company's COO to become the President of Motion Specialties. Under the direction of Mr. Dennis, decisive action has been taken including a strategic review of the in-process IT integration, staffing changes, organizational structure changes, cost rationalization initiatives and a continuous improvement project designed to standardize and streamline business processes. A major system integration of Motion Specialties is in progress with successful pilot launches in September 2013 and February 2014. However, the process re-engineering of day-to-day activities and the automation of inventory is taking longer than management had expected. In order to effectively implement new processes in conjunction with the new system, the Company has revised its estimated completion date to the end of 2015. It is expected that this project will drive operational improvements and improve Adjusted EBITDA margins once it is completed. The Company has brought on personnel with experience in process re-engineering and supply chain management in order to assist Mr. Dennis with his strategic plans for this segment.

Motion Specialties is expanding its respiratory sales which are expected to enhance this segment's Adjusted EBITDA in 2014. The Company plans to only pursue the acquisition of retail and home medical equipment stores where it will strategically expand the Company's existing retail footprint.

Assessments

The Assessments segment began rebuilding from the Ontario legislative changes announced in the fall of 2010 surrounding automobile insurance coverage with a strong 2013. Substantial efforts were made in 2011 and 2012 to reduce fixed costs and "right size" the business, including consolidating operations in Ontario into fewer assessment centres in order to reduce excess overhead costs. The benefits of these initiatives were realized in 2013 as referrals are increasing and margins are stabilizing. The Company continues to focus on increasing its market share in this industry through successful RFPs. The Company's growth initiatives include increased brand awareness in the industry, enhanced bookings through technology and providing insurers and adjusters with value added reporting enhancements 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 and first half of 2013 but have shown signs of stability in the second half of 2013. The Company continues to rebuild the surgical operations at its Sarnia facility but the recovery at this facility has been at a slower pace than planned. The Company is continuing to recruit new surgeons and physicians to practice at this facility. The Company continues to review its current surgical compliment and implementing strategies to improve the overall performance of this segment. Efforts to expand the roster of physicians in order to utilize excess operating room capacity is ongoing at all of the Company's surgical centres. During the third quarter, the Company announced a five year strategic alliance with Vancouver Imaging for the provision of imaging at the Company's False Creek location in Vancouver and to explore other imaging opportunities across Canada. The Company also launched an extended patient choice network program and surgical centres of excellence in nasal and sinus and women's urology. In the fourth quarter of 2013, the Company completed the strategic acquisition of SWLC for cash consideration of $1.6 million in addition to contingent common shares and warrants, which will utilize excess operating room capacity by expanding the Company's bariatric footprint across its surgical locations. The Company also completed a significant renovation to its facility in Calgary, Alberta in the first quarter of 2014. The Company will continue to seek partnerships with some of Canada's leading surgeons for the future launch of other specialized surgical centres of excellence and other initiatives. However, the Company only plans on launching these initiatives once a comprehensive and complete analysis has been completed in order to ensure that they are accretive to the Company within a reasonable period after their launch.

$000's (except for per share amounts)

Selected Financial Information

The following selected financial information for the years ended December 31, 2013 and 2012, has been derived from the consolidated financial statements for the years ended December 31, 2013 and 2012, 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 three month periods ended December 31,			For the years ended December 31,		
	2013	2012	2011	**2013**	2012	2011
	$	$	$	**$**	$	$
Revenue	**109,785**	110,917	77,265	**455,864**	436,651	200,992
Loss from operations	**(4,832)**	(11,526)	(10,993)	**(13,291)**	(9,269)	(4,532)
(Loss) income before interest expense and income taxes	**(20,973)**	(31,525)	(66,267)	**(55,350)**	16,421	1,349
EBITDA[2]	**(12,472)**	(15,088)	(53,999)	**(20,383)**	52,204	15,897
Adjusted EBITDA[2]	**6,184**	9,591	6,271	**33,596**	42,832	21,360
Per share - Basic	**$0.05**	$0.08	$0.07	**$0.26**	$0.38	$0.26
Per share - Diluted	**$0.03**	$0.06	$0.06	**$0.18**	$0.28	$0.21
Adjusted EBITDA Margin	**5.6%**	8.6%	8.1%	**7.4%**	9.8%	10.6%
Net loss	**(37,685)**	(38,530)	(67,484)	**(90,850)**	(7,088)	(8,978)
Per share - Basic	**$(0.28)**	$(0.32)	$(0.74)	**$(0.70)**	$(0.06)	$(0.11)
Per share - Diluted	**$(0.28)**	$(0.32)	$(0.74)	**$(0.70)**	$(0.06)	$(0.11)
Cash flow from operations	**8,649**	14,813	621	**20,204**	15,314	7,598
Total assets	**391,300**	486,752	436,691	**391,300**	486,752	436,691
Total non-current liabilities	**309,533**	299,584	88,752	**309,533**	299,584	88,752

[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. The non-IFRS measures presented are unlikely to be comparable to similar measures presented by other issuers.

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA per share

The Company defines EBITDA as earnings before depreciation and amortization, interest expense, amortization of lease incentives, and income tax (recovery) expense. Adjusted EBITDA is defined as EBITDA before transaction and restructuring costs, change in fair value of contingent consideration liability, change in fair value of derivative financial instruments, (gain) loss on disposal of property and equipment and stock based compensation expense. Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by revenue. Adjusted EBITDA per share is defined as Adjusted EBITDA divided by the weighted outstanding shares on both a basic and diluted basis. The Company believes that Adjusted EBITDA is a meaningful financial metric as it assists in the ability to measure cash generated from operations. The Company's agreements with senior lenders are structured with certain financial performance covenants which includes Adjusted EBITDA as a key component of the covenant calculations. EBITDA and Adjusted EBITDA are not recognized measures under IFRS.

$000's (except for per share amounts)

EBITDA and Adjusted EBITDA have been determined as follows for the three month periods and years ending December 31, 2013 and 2012:

	For the three month periods ended December 31,		**For the years ended December 31,**	
	2013 $	2012 $	**2013 $**	2012 $
Net loss	**(37,685)**	(38,530)	**(90,850)**	(7,088)
Depreciation and amortization	**8,472**	16,326	**34,584**	35,441
Interest expense	**8,305**	6,562	**36,194**	24,350
Amortization of lease incentives	**29**	111	**383**	342
Income tax (recovery) expense	**8,407**	443	**(694)**	(841)
EBITDA	**(12,472)**	(15,088)	**(20,383)**	52,204
Transaction and restructuring costs	**1,939**	2,780	**5,403**	11,422
Change in fair value of contingent consideration liability	**(2,588)**	(5,893)	**(12,562)**	(51,164)
Impairments	**18,500**	27,421	**59,507**	27,421
Stock-based compensation expense	**574**	1,512	**6,520**	4,464
Change in fair value of derivative financial instruments	**229**	(1,529)	**(4,886)**	(1,947)
(Gain) loss on disposal of property and equipment	**2**	388	**(3)**	432
Adjusted EBITDA	**6,184**	9,591	**33,596**	42,832
Basic weighted average number of shares	**132,739**	121,338	**129,032**	114,140
Adjusted EBITDA per share (basic)	**$0.05**	$0.08	**$0.26**	$0.38
Fully diluted weighted average number of shares	**183,830**	155,226	**184,984**	154,070
Adjusted EBITDA per share (diluted)	**$0.03**	$0.06	**$0.18**	$0.28

Results of Consolidated Operations for the years ended December 31, 2013 and 2012

Revenues

The Company's revenue for the year ended December 31, 2013 increased by $19,213 to $455,864 as compared to the prior year. This increase was primarily due to :

- Organic growth - organic growth of $22,153 in the Pharmacy, Retail and Home Medical Equipment, Physiotherapy and Assessments segments; and
- Acquisitions - purchase of Motion Specialties in February 2012, the addition of physiotherapy clinics acquired in the first quarter of 2012 and retail and home medical equipment stores acquired in the fourth quarter of 2012 and the first quarter of 2013 collectively increased revenue by $13,296.

Partially offsetting these increases were:

- Pharmacy - a decrease in revenue of $5,098 as a result of certain high volume drugs becoming generic;
- Funding for seniors in Ontario - a decrease of $10,232 as a result of the funding changes for physiotherapy services for seniors implemented by the government of Ontario in August 2013; and
- Surgical - a decline of approximately $2,792 mainly due to management changes at the Company's Sarnia location.

Expenses

Most of the Company's costs have increased for the year ended December 31, 2013 as compared to prior year due to the following:

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, 2013 were $238,463 as compared to $221,056 in the prior year. Cost of healthcare services and supplies increased as a percentage of revenue over the comparative periods at 52.3% and 50.6%, respectively. This was mainly due to a non-recurring, non-cash adjustment of approximately $7.8 million arising from the Company's year end physical inventory count and valuation for Motion Specialties which decreased inventory and increased cost of healthcare services and supplies. Excluding this adjustment, healthcare services and supplies would have remained consistent as a percentage of revenue when compared to the prior year.

Motion Specialties has traditionally used the “retail method” to estimate its inventory and cost of goods sold with an adjustment to actual amounts at year end based on the results of the annual year end physical inventory count and valuation. With this method, margins from the preceding year are used to estimate the cost of goods sold and inventory in the current year. Year end adjustments in past years have not been material. The factors accounting for the adjustment in the current year includes a change in product mix including increased institutional sales at lower margins, inventory shrinkage and inventory obsolescence.

The Company had previously identified that more robust information systems were required for its Motion Specialties and MEDIchair corporate stores and thus in 2013 launched a major IT project which includes the implementation of a perpetual inventory system at all corporate retail stores. The Company has successfully pilot launched this new IT system in two locations. The Company expects that the perpetual inventory system will be implemented in all Motion and MEDIchair corporate stores by the end of 2015. While this perpetual inventory system is being implemented, the Company will complete quarterly physical inventory counts and valuations at its Motion Specialties and MEDIchair retail stores.

Employee costs include salaries and benefits of employees working directly in each business segment. For the year ended December 31, 2013, employee costs were $106,877 compared to $96,425 in the prior year. Of this increase, $4,712 of the employee costs are related to the acquisition of Motion Specialties. The Company realized cost savings from the reduction of its assessment workforce in the right-sizing of these operations, which was offset by increased head counts in the Pharmacy, Physiotherapy and Retail and Home Medical Equipment segments. Head count increases in the Physiotherapy and Retail and Home Medical Equipment segments are mainly revenue generating and in Pharmacy are for the non-recurring implementation of Electronic Medical Administrative Records ("EMAR").

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, 2013 were $61,489 compared to $60,666 in the prior year which is 13.4% as a percentage of revenue in the current year and represents an improvement of 0.4% over the prior year. This improvement is mainly a result of the consolidation of locations in the assessments segment.

Corporate office expenses include salaries and benefits, occupancy costs, insurance, communication, advertising and promotion and other costs of the corporate office. Corporate office expenses have improved from 3.7% of revenue for the year ended December 31, 2012 to 3.5% for the year ended December 31, 2013 as a result of the Company's right-sizing initiatives and the waiving of advisory fees from GHIS in 2013. The Company was able to improve its corporate office expenses as a percentage of revenue despite adding the Chief Information Officer and Chief Operating Officer positions which were not in place in 2012.

Depreciation and amortization decreased by $857 to $34,584 for the year ended December 31, 2013 as compared to the same periods in the prior year. This decrease is mainly due to a decrease in the amortization of intangible assets as a result of impairments recorded at December 31, 2012 and September 30, 2013.

Stock-based compensation expense, a non-cash expense, increased $2,056 for the year ended December 31, 2013 versus the comparable periods in the prior year. The increase over the prior year can be attributed to the share based compensation expense incurred in the second quarter of 2013 related to the revised consulting agreement between the Company and GHIS.

Transaction and restructuring costs decreased by $6,019 to $5,403 for the year ended December 31, 2013 as compared to the same periods in the prior year respectively. Transaction and restructuring costs are lower in 2013 as compared to 2012 as the majority of costs incurred in 2012 related to completing the acquisitions of Motion Specialties and five physiotherapy clinics and severance costs related to the departure of the Company's former CEO.

Loss from operations for the year ended December 31, 2013 was $13,291 or 2.9% of revenues. The Adjusted EBITDA for the year ended December 31, 2013 was $33,596 as compared to $42,832 for the same period in the prior year. The Adjusted EBITDA for the year ended December 31, 2013 would have been $41.4 million excluding the impact of the non-recurring, non-cash adjustment for Motion Specialties inventory and cost of sales. The Adjusted EBITDA margin decreased to 7.4% from 9.8% over the comparative period mainly due to a non-recurring, non-cash adjustment arising from the its year end physical inventory count and valuation, low utilization of operating room capacity in the Surgical and Medical Centre segment and the inclusion of Motion Specialties full year results from operations which realizes lower margins. Within the Surgical and Medical Centre segment, there are considerable economies of scale as operating room capacity is maximized. As excess operating room capacity decreases in the future an improvement in margins in the surgical segment is anticipated. The margins for Motion Specialties which was acquired in February 2012 are lower than the Company's other operating segments which impacts on the Company's overall margin percentage.

Interest expense for the year ended December 31, 2013 was $36,194 as compared to $24,350 in the prior year.. The main reason for this increase over the prior year was the expensing of $4,704 in the second quarter of 2013 of loan arrangement fees related to the Company's Term Loan which were being amortized over the original life of the debt agreement. Interest expense excluding amortization and accretion expenses for the year ended December 31, 2013 was $25,964 as compared to $20,290 in the prior year. Interest expense relates to the Term Loan, second lien senior secured notes, Revolving Facility, the distribution on preferred partnership units, the related party loan obtained in November 2010 and renegotiated in November 2013, the capital leases assumed in acquisitions and the convertible debentures issued in December 2011, February 2012, May 2012 and September 2012. The increase in interest expense excluding amortization and accretion expenses is mainly attributable to increased convertible borrowings and a higher average borrowing base on senior debt over the comparative periods.

$000's (except for per share amounts)

	For the three month periods ended December 31,		For the years ended December 31,	
	2013 **$**	2012 $	**2013** **$**	2012 $
Interest on long-term loan, revolving facilities and second lien senior secured notes	**4,879**	2,784	**16,946**	11,324
Amortization of loan arrangement fees[3]	**275**	470	**6,432**	1,771
Interest on related party amounts	**161**	164	**644**	781
Accretion of related party loan discounts	**107**	73	**450**	360
Interest on capital leases	**45**	26	**103**	98
Amortization of deferred gain on interest rate swap	**(5)**	20	**(173)**	—
Interest on convertible debt	**893**	378	**3,294**	1,232
Accretion on convertible debt	**947**	893	**3,521**	1,929
Interest expense before distributions for preferred partnership units	**7,302**	4,808	**31,217**	17,495
Distributions for preferred partnership units	**1,004**	1,755	**4,988**	6,885
Total interest expense	**8,306**	6,563	**36,205**	24,380
Interest income	**(1)**	(1)	**(11)**	(30)
Net interest expense	**8,305**	6,562	**36,194**	24,350
Accretion and amortization expenses	**1,324**	1,456	**10,230**	4,060
	6,981	5,106	**25,964**	20,290

[3] Includes the expensing of $4,704 of loan arrangement fees related to the Company's previous senior debt in the year ended December 31, 2013.

The **change in fair value of derivative financial instruments** of $4,886 for the year ended December 31, 2013 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, the change in fair value of the derivative liability component of certain debt offerings and the change in fair value of redemption features included in certain of the Company's debt arrangements. The fluctuation of these balances are reflective of various factors including changes in the Company's share price, interest rates and credit spreads.

For the year ended December 31, 2013, the Company recognized gains on the **fair value of contingent consideration liabilities** of $12,562 as compared gains $51,164 in the prior year. The Company is required to value contingent consideration liabilities pursuant to its business combination activities. 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 main driving factor behind the decreased gains in contingent consideration on a period over period basis was the settlement of the LifeMark contingent consideration in the second quarter of 2012 as the vendors of LifeMark earned 6,875,000 out of a possible 46,875,000 outperformance shares.

The largest component of the change in fair value of contingent consideration at December 31, 2013 relates to Motion Specialties which is subject to a three year earn-out period concluding on December 31, 2014. The earn-out agreement for Motion Specialties is based on a 1/3rd cash and 2/3rd common share issuance formula applying an average warranted EBITDA target of $10,000 over the earn-out period. In addition, the earn-out formula considers the impact of working capital and debt levels. During the three month period ended March 31, 2013, the Company reduced the probability with achieving stated performance targets from a 90% probability to a 50% probability for the second and third years of the earnout period. The Company has further reduced the probability for the second year and third year earn-out to 0% during the three month period ended December 31, 2013. The Company has recorded a gain of $11,980 for the change in fair value of Motion Specialties contingent consideration for the year ended December 31, 2013 mainly due to the reduction in probabilities. These decreases in probability are mainly a result of Motion Specialties generating a working capital shortfall as compared to what had been projected as part of the earn-out agreement in addition to a shortfall in achieving its Adjusted EBITDA financial performance target.

During the year ended December 31, 2013, the Company issued 168,917 common shares from treasury and released 129,383 common shares from escrow to the vendors of physiotherapy clinics as consideration for the earn-out agreements for these acquisitions.

On November 2, 2013, the Company issued 714,286 (December 31, 2012 - 714,284) common shares and 98,918 warrants to the vendors of Community Advantage Rehabilitation as the consideration of the third and final year of their earn-out agreement.

On March 15, 2013, the Company released 34,134 common shares to the vendors of London Scoping Centre as consideration for the first year of the earn-out agreement for this acquisition.

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 released 2,810,094 escrowed shares and 5,000,000 share purchase warrants to the vendors of Classic Care on February 12, 2013.

The second year earn-out period for Performance Medical Group ended on November 30, 2013 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 0% 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 released 1,500,000 escrowed shares on February 5, 2013 to the vendor of Performance Medical Group. The remaining 1,500,000 escrowed shares will be canceled pursuant to the finalization of the final earnout calculation between the Company and the vendors of Performance Medical Group.

The Company recorded non-cash **impairment** charges of $59,507 during the year ended December 31, 2013. The Company identified an indicator of impairment resulting for the Ontario government's regulatory changes for physiotherapy for seniors which resulted in the Company recording an impairment of $15,007 for its billing privileges and related trademarks. In addition, the Company also completed its annual impairment test of goodwill and indefinite life intangible assets. As a result, the Company recorded non-cash impairments of goodwill of $29,000 for its Physiotherapy - Seniors Wellness CGU, $14,500 for its Retail and Home Medical CGU and $1,000 for its Surgical - Eastern Canada CGU. The impairment of the Physiotherapy - Seniors Wellness CGU is directly related to the regulatory changes in Ontario and a perceived conflict of interest brought forward by the government of Ontario. The impairment of the Retail and Home Medical CGU is a result of working capital shortfalls from expectations and process re-engineering initiatives to drive margin growth which are not expected to be completed until 2015. The impairment in the Surgical - Eastern Canada CGU is a result of the restructuring of the Company's facility in Sarnia, Ontario.

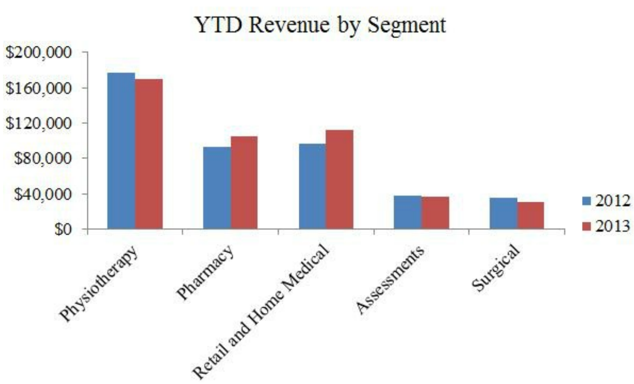
The **income tax recovery** was $694 for the year ended December 31, 2013 as compared to $841 for the same periods in the prior year. The Company is in a recovery position on a year to date basis mainly due to the Company generating loss carryforwards in certain legal entities. The Company has projected that it will generate taxable income in order to use these loss carryforwards, except for an unrecognized deferred tax asset of $13,500 which the Company has not recorded at December 31, 2013 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.

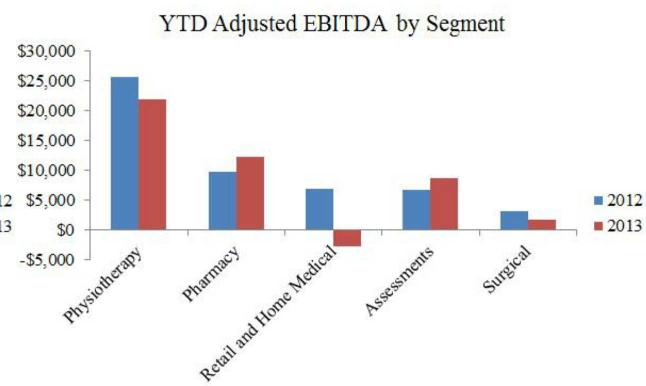
$000's (except for per share amounts)

Results of Segmented Operations

This section presents the results of operations for the years ended December 31, 2013 and 2012 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			
	2013 $	2012 $	**2013 $**	**%**	2012 $	%
Physiotherapy	**170,412**	176,726	**21,967**	**12.9**	25,725	14.6
Pharmacy	**105,631**	92,769	**12,310**	**11.7**	9,714	10.5
Retail and Home Medical Equipment	**112,107**	96,445	**(2,760)**	**(2.5)**	6,906	7.2
Assessments	**37,005**	37,210	**8,543**	**23.1**	6,720	18.1
Surgical and Medical Centres	**30,709**	33,501	**1,835**	**6.0**	3,201	9.6
Corporate	**—**	—	**(8,299)**	**—**	(9,434)	—
Total	**455,864**	436,651	**33,596**	**7.4**	42,832	9.8





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 CAR. As discussed in the Business Outlook, the Company has entered into an agreement to sell CAR in March 2014 subject to the completion of certain approvals. The seniors' wellness and homecare businesses were largely funded by the Ontario MOHLTC prior to August 2013 as previously discussed.

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

Revenue for the Physiotherapy segment decreased to $170,412 from $176,726 for the year ended December 31, 2013 as compared to December 31, 2012. This decrease was primarily a result of regulatory and funding changes implemented by the Ontario MOHLTC in August 2013 related to physiotherapy services for seniors and the impact of the perceived conflict of interest matter with the government of Ontario. Offsetting this decrease is same store revenue growth of approximately 2.0% for the year in the Company's physiotherapy clinics.

Adjusted EBITDA decreased from $25,725 for the year ended December 31, 2012 to $21,967 for the year ended December 31, 2013. This decrease is mainly attributed to the impact of regulatory and funding changes implemented by the Ontario MOHLTC in August 2013 and several closed physiotherapy clinics. These decreases were offset by the margin impact of organic growth from the Company's physiotherapy clinics.

$000's (except for per share amounts)

Pharmacy

The Company has a retail and niche pharmacy network with dispensing operations that service over 200 long-term care facilities with over 16,000 residents and 18 pharmacies that service 36 methadone treatment centres.

Pharmacy revenues increased to $105,631 for the year ended December 31, 2013 as compared to $92,769 in the prior year. The revenue increase is a result of organic growth offset by lower prices for certain commonly prescribed drugs which now have a generic version available.

Adjusted EBITDA increased to $12,310 for the year ended December 31, 2013 as compared to $9,714 in the prior year. The impact of organic growth over the prior year was partially offset by the impact of lower generic drug prices and the impact of implementing EMAR for certain long-term care homes. The Company has incurred incremental personnel and up front hardware costs as part of the EMAR implementation. Costs associated with the EMAR implementation began to subside in the second half of 2013 as the implementation for existing long-term care home contracts has mainly been completed.

Retail and Home Medical Equipment

The Company currently operates over 145 retail and home medical locations across Canada through Motion Specialties, MEDIchair and Performance Medical Group ("Performance"). 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.	6 corporate stores and 54 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

Revenue for the Retail and Home Medical Equipment segment for the year ended December 31, 2013 was $112,107 as compared to $96,445 for the year ended December 31, 2012. The increase over the prior year was due to the acquisition of Motion Specialties in the first quarter of 2012 which contributed $13,296 in incremental revenue to this segment as compared to the prior year. In addition, there was a same store revenue growth of $2,336 on a year over year basis.

Despite the increase in revenue, Adjusted EBITDA for this segment for the year ended December 31, 2013 was a loss of $2,760 as compared to income of $6,906 in the prior year. The impact of organic growth and acquisitions over this period was offset by a non-recurring, non-cash adjustment of approximately $7.8 million arising from the Company's year end physical inventory count and valuation for Motion Specialties which decreased inventory and increased cost of healthcare services and supplies. Additionally, there were higher salary costs related to a growth in the sales force for initiatives such as respiratory sales. Due to the nature of the retail and home medical equipment business, sales growth initiatives tend to translate into revenue and Adjusted EBITDA growth over a longer term period. The benefits of these initiatives are expected to be realized in 2014. Other salary costs continued to be higher than anticipated which led Motion Specialties to reduce head count in the second quarter of 2013 through attrition and restructuring in order to better align their resourcing needs. Prior to the acquisition of Motion Specialties in February 2012, the Adjusted EBITDA margin mainly included the royalty revenues earned from the MEDIchair franchises which have higher margins as compared to the margins on corporate stores.

Assessments

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 focuses on providing superior service to its clients and patients.

Revenue for Assessments decreased to $37,005 from $37,210 for year ended December 31, 2013 as compared to 2012 mainly due to fewer referrals on a comparative basis between the two periods. The impact of the regulatory changes in this industry were still being felt in early 2013 which is the main driver for this decrease.

For the year ended December 31, 2013, despite the decrease in revenue, Adjusted EBITDA and Adjusted EBITDA margin improved to $8,543 and 23.1% from $6,720 and 18.1% in the prior year. These increases 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.

Surgical and Medical Centres

The Company has seven Surgical and Medical Centres across Canada with a total of 19 operating rooms and 86 beds, in addition to surgical rooms and facility space which SWLC leases in Mississauga, Ontario.

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 ("LSC") in London, Ontario, False Creek Health Centre in Vancouver, British Columbia, Canadian Surgical Solutions in Calgary, Alberta, Maples Surgical Centre in Winnipeg, Manitoba and SWLC in Mississauga, Ontario which operates out of a surgical centre not operated by the Company.

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.

During the year, the Company announced a five year strategic alliance with Vancouver Imaging for the provision of imaging at the Company's False Creek location in Vancouver and to explore other imaging opportunities across Canada. The Company also launched an extended patient choice network program and surgical centres of excellence in nasal and sinus and women's urology.

Revenue generated by the Surgical and Medical Centre segment for the year ended December 31, 2013 was $30,709 as compared to $33,501 in the prior year and adjusted EBITDA decreased to $1,835 from $3,201 over the same period. The decreases over the prior year can mainly be attributed to low utilization of operating room capacity and the impact of management changes at the Company's Sarnia location which included the departure of the primary revenue generating surgeon for this location. The Company is focused on strengthening its underperforming surgical centres and has undertaken surgical initiatives and related initiatives to further grow this segment as discussed in the Business Outlook.

$000's (except for per share amounts)

Fourth Quarter Results

	For the three month periods ended December 31,	
	2013 **$**	2012 $
Revenue	**109,785**	110,917
Loss from operations	**(4,832)**	(11,526)
Impairments	**18,500**	27,421
Loss before interest expense and income taxes	**(20,973)**	(31,525)
Interest expense	**8,305**	6,562
Income tax expense	**8,407**	443
Net loss	**(37,685)**	(38,530)
Net loss per share		
Basic	**($0.28)**	($0.32)
Diluted	**($0.28)**	($0.32)
Adjusted EBITDA	**6,184**	9,591
Adjusted EBITDA per share		
Basic	**$0.05**	$0.08
Diluted	**$0.03**	$0.06

The Company's revenue for the three month period ended December 31, 2013 decreased by $1,132 to $109,785 as compared to the fourth quarter of 2012. This decrease was mainly as a result of the changes in funding for physiotherapy services for seniors implemented by the government of Ontario in August 2013 which resulted in a decrease of $8,137 in revenues for the segment and the impact of a perceived conflict of interest matter which impacted Motion Specialties. Partially offsetting this decrease was organic growth of $6,792 in the Pharmacy, Physiotherapy and Assessments segments.

For the three month period ended December 31, 2013, **loss from operations**, expressed as revenue less cost of healthcare services and supplies, employee costs, other operating expenses, corporate expenses and amortization was $4,832 or (4.4)% of revenues. The Adjusted EBITDA for the three month period ended December 31, 2013 was $6,184 as compared to $9,591 for the same period in the prior year. Adjusted EBITDA represented approximately 5.6% of revenue for the three month period ended December 31, 2013 which is a decrease from the Adjusted EBITDA margin of 8.6% for the same period in the prior year. This decrease is mainly attributed to a non-recurring, non-cash adjustment arising from the Company's year end physical inventory count and valuation for Motion Specialties, and increased employee costs in the Retail and Home Medical Equipment segment. Adjusted EBITDA excluding the impact of the non-recurring, non-cash inventory adjustment would have been $8,043 for the three month period ended December 31, 2013.

Impairments of goodwill for the three month period ended December 31, 2013 was $18,500 and relates to specific triggering events during the fourth quarter of 2013. The Company's Physiotherapy - Seniors Wellness CGU was impacted by further reduced profitability due to a perceived conflict of interest raised by the government of Ontario. Due to this development, the Company amended its budget projections for this CGU which resulted in a goodwill impairment of $14,000 in the fourth quarter of 2013. The Company also identified a triggering event in the Retail and Home Medical CGU due to the Company's annual physical inventory count and valuation at December 31, 2013 for this CGU, which resulted in an adjustment of approximately $7.8 million which reduced inventory and increased cost of goods sold. The Company recorded an impairment of $4,500 in the Retail and Home Medical CGU in the fourth quarter of 2013.

Interest expense for the three month period ended December 31, 2013 was $8,305 as compared to $6,562 in the prior year. Interest expense excluding amortization and accretion expenses for the three month period ended December 31, 2013 was $6,981 as compared to $5,106 in the prior year. Interest expense relates to the Term Loan, second lien senior secured notes, Revolving Facility, the distribution on preferred partnership units, the related party loan obtained in November 2010 and renegotiated in November 2013, the capital leases assumed in acquisitions and the convertible debentures issued in December 2011, February

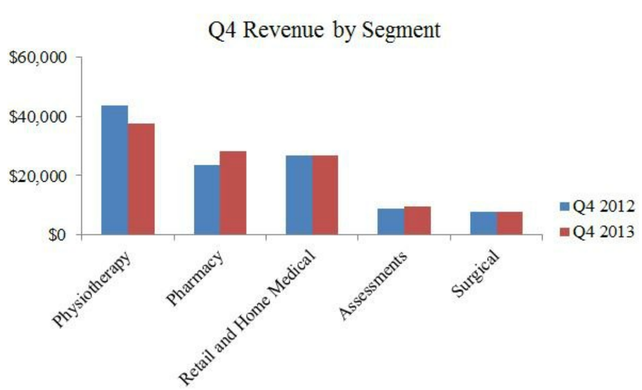
$000's (except for per share amounts)

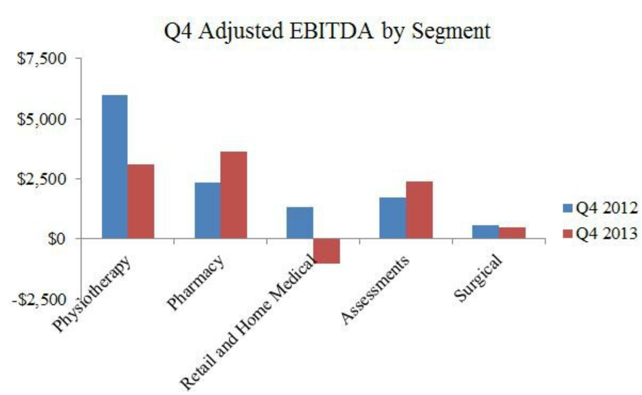
2012, May 2012 and September 2012. The increase in interest expense excluding amortization and accretion expenses is mainly be attributable to increased convertible borrowings and a higher average borrowing base on senior debt over the comparative periods.

The **income tax expense** was $8,407 for the three month period ended December 31, 2013 as compared to $443 for the same period in the prior year. This expense has increased as a result of unrecognized deferred tax assets which were previously recorded and were reversed in the fourth quarter of 2013. 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 $13,500 which the Company has not recorded at December 31, 2013 in respect of certain non-capital losses. Income tax expense 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.

The Adjusted EBITDA by segment for the three month period ended December 31, 2013 and 2012 are as follows:

For the three month periods ended December 31,	**Revenue**		**Adjusted EBITDA**			
	2013 $	2012 $	**2013 $**	**%**	2012 $	%
Physiotherapy	**37,645**	43,828	**3,208**	**8.5**	5,966	13.6
Pharmacy	**28,117**	23,660	**3,631**	**12.9**	2,344	9.9
Retail and Home Medical Equipment	**26,702**	26,802	**(1,030)**	**(3.9)**	1,325	4.9
Assessments	**9,425**	8,830	**2,281**	**24.2**	1,744	19.8
Surgical and Medical Centres	**7,896**	7,797	**492**	**6.2**	578	7.4
Corporate	**—**	—	**(2,398)**	**—**	(2,366)	—
Total	**109,785**	110,917	**6,184**	**5.6**	9,591	8.6





Physiotherapy

Revenue for the **Physiotherapy** segment decreased by $6,183 or 14.1% from the fourth quarter of 2012 to the fourth quarter of 2013. This decrease was primarily a result of regulatory and funding changes implemented by the Ontario MOHLTC in August 2013 related to physiotherapy services for seniors. Offsetting this decrease is same store revenue growth of approximately 3% for the Company's physiotherapy clinics.

Adjusted EBITDA decreased by $2,758 between the fourth quarter of 2012 and the fourth quarter of 2013. This decrease is primarily attributed to the impact of regulatory and funding changes implemented by the Ontario MOHLTC in August 2013.

Pharmacy

Revenue for the **Pharmacy** segment increased by $4,457 to 28,117 and Adjusted EBITDA increased by $1,287 to $3,631 for the three month period ended December 31, 2013 as compared to the same period in the prior year. The revenue increase is a result of organic growth offset by a decrease related to lower prices for certain commonly prescribed drugs which now have a generic version available. The Adjusted EBITDA margin improved over the same period to 12.9% from 9.9% as the Company is beginning to see incremental margins from the organic growth and stabilized costs associated with the EMAR implementation.

Retail and Home Medical Equipment

Revenue for the **Retail and Home Medical** segment decreased by $100 to $26,702 and Adjusted EBITDA decreased by $2,355 to a loss of $1,030 between the fourth quarter of 2012 and the fourth quarter of 2013. The marginal decrease in revenue is mainly due to the impact of the perceived conflict of interest matter raised by the government of Ontario which more than offset organic growth initiatives. The main reason for the decrease in Adjusted EBITDA is a non-recurring, non-cash adjustment arising from the Company's year end physical inventory count and valuation for Motion Specialties and higher salary costs related to the growth in the sales force for initiatives such as respiratory sales. Adjusted EBITDA for this segment would have been $829 for the three month period ended December 31, 2013 excluding the non-recurring, non-cash adjustment.

Assessments

Revenue for the **Assessments** segment increased by $595 to $9,425 for the three month period ended December 31, 2013 as compared to the three month period ended December 31, 2012. Revenue increased on a period over period basis as a result of incremental referrals on a comparative basis between the two periods.

Adjusted EBITDA increased by $537 to $2,281, resulting in an improved Adjusted EBITDA margin of 24.2% in the fourth quarter of 2013 as compared to 19.8% in the fourth quarter of 2012. This improvement in the Adjusted EBITDA margin is a direct result of the Company's organic growth in the industry and realizing the benefits of the right-sizing initiatives in the assessment operations that were implemented in 2012.

Surgical and Medical Centres

Revenue for the **Surgical and Medical** segment increased by $99 to $7,896 and Adjusted EBITDA decreased by $86 for the three month period ended December 31, 2013 as compared to the three month period ended December 31, 2012. The increase in revenue over the comparable three month periods can mainly be attributed to the acquisitions of SWLC in December 2013 which also impacted on the decrease in Adjusted EBITDA as December is typically a seasonally slow month for this newly acquired business.

$000's (except for per share amounts)

Summary of Quarterly Results

	4th Quarter ($)	3rd Quarter ($)	2nd Quarter ($)	1st Quarter ($)
Fiscal year 2013				
Revenue and other income	109,785	110,614	122,184	113,281
Adjusted EBITDA	6,184 [1]	8,558 [1]	11,026 [1]	7,828 [1]
Adjusted EBITDA per share				
Basic	0.05	0.06	0.09	0.06
Diluted	0.03	0.05	0.06	0.04
Net (loss) income	(37,685) [2]	(41,077) [3]	(14,546) [4]	2,458 [5]
(Loss) earnings per share				
Basic	(0.28)	(0.31)	(0.11)	0.02
Diluted	(0.28)	(0.31)	(0.11)	0.01
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) [6]	(6,273) [7]	42,366 [8]	(4,651) [9]
(Loss) earnings per share				
Basic	(0.32)	(0.05)	0.38	(0.04)
Diluted	(0.32)	(0.05)	0.34	(0.04)

[1] Adjusted EBITDA includes a restatement of previously reported amounts in order to reflect the impact of a non-cash, non-recurring adjustment related to the annual inventory count and valuation of the Company's Retail and Home Medical Equipment operations at December 31, 2013. For the quarters ended March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013 the impact of the adjustment was $1,915, $2,185, $1,819 and $1,859, respectively.

[2] The net income for the quarter ended December 31, 2013 includes $2,588 as a non-cash gain in net income representing the decrease in fair value of the contingent consideration liability, non-cash impairment charges of $18,500 and $1,939 of transaction and restructuring costs.

[3] The net income for the quarter ended September 30, 2013 includes $2,982 as a non-cash gain in net income representing the decrease in fair value of the contingent consideration liability, non-cash impairment charges of $41,007 and $1,051 of transaction and restructuring costs.

[4] The net income for the quarter ended June 30, 2013 includes $48 as a non-cash gain in net income representing the decrease in fair value of the contingent consideration liability and $1,889 of transaction and restructuring costs.

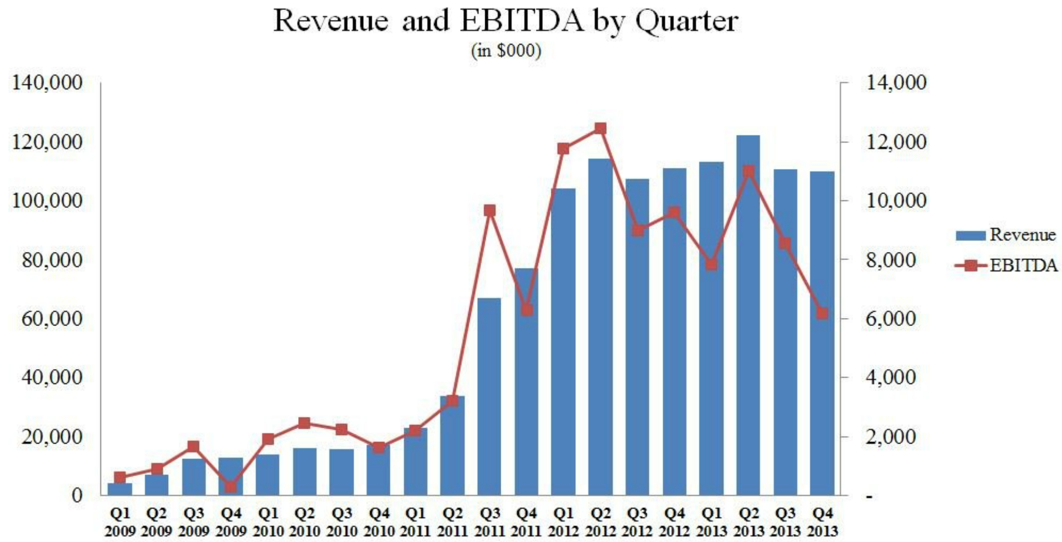
[5] The net income for the quarter ended March 31, 2013 includes $6,945 as a non-cash gain in net income representing the decrease in fair value of the contingent consideration liability and $523 of transaction and restructuring costs.

[6] 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, $27,421 of non-cash impairment charges and $2,780 of transaction and restructuring costs.

[7] 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.

[8] 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.

[9] 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.



The Company has shown steady long-term revenue growth which is illustrative of the Company's overall growth both organically and through acquisitions. However, the Company has experienced a decrease in revenue in the third and fourth quarters of 2013 as result of regulatory changes for physiotherapy services for seniors in Ontario in August 2013. The Company's Adjusted EBITDA margin decreased from 6.9% to 5.6% from the first quarter to the fourth quarter of 2013. While there were organic growth efforts and the benefits of cost improvement projects which worked towards improving the Adjusted EBITDA margin, the quarter over quarter impact of a non-recurring, non-cash adjustment arising from the Company's year end physical inventory count and valuation for Motion Specialties led to margin compression throughout the year. The impact of this adjustment resulted in a restatement of previously reported amount for each quarter in 2013 of $1,915, $2,185, $1,819 and $1,859 from the first to fourth quarters respectively.

The volatility in net income (loss) quarter over quarter in each quarters of 2012 and 2013 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. The Company's common share price has fluctuated significantly, affecting the quantum at which the contingent consideration liabilities are valued at the end of each reporting period. Transaction and restructuring costs are expensed as incurred. Transaction costs have increased proportionally with the size of the acquisitions completed, leading to increased charges against earnings in certain quarters in 2012 and 2013. Restructuring costs also increased in 2012 as the Company completed an initiative to right-size its assessment operations and also changed its President and Chief Executive Officer.

Adjusted EBITDA in the fourth quarter of 2013 decreased by $2,374 to $6,184 when compared to the third quarter of 2013. This decrease was mainly due to the impact of regulatory changes for physiotherapy services for seniors in Ontario.

As a result of expected seasonality in the business and the impact of regulatory changes for physiotherapy services for seniors in Ontario, Adjusted EBITDA decreased by $2,468 to $8,558 from the second quarter to the third quarter of 2013. The second quarter is typically the Company's strongest quarter and as such a decrease in Adjusted EBITDA was expected between the second and third quarters.

Adjusted EBITDA for the Company increased by $3,198 to $11,026 from the first quarter of 2013 to the second quarter of 2013. The Company experienced Adjusted EBITDA growth in every segment between the first and second quarters of 2013. Although the second quarter is typically the Company's strongest quarter, some of the growth can be attributed to strategic initiatives launched by the Company's new senior management team.

The Company's Adjusted EBITDA decreased by $1,763 to $7,828 from the fourth quarter of 2012 to the first quarter of 2013. This decrease is mainly a result of the first quarter impact of the adjustment to inventory and cost of goods sold for Motion Specialties partially offset by increased revenue over this period.

The Company's Adjusted EBITDA increased by $583 from the third quarter of 2012 to the fourth quarter of 2012. 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 $675 from the first quarter to the second quarter of 2012 due mainly to the inclusion of the results of Motion Specialties as in the first quarter its results were only included from its date of acquisition of February 13, 2012.

Liquidity and Capital Resources

The Company's main working capital requirement relates to the financing of inventories and accounts receivable primarily from the Ontario MOHLTC, other government agencies, employers and insurance companies. These receivables totaled $58,531 at December 31, 2013. 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.

On April 18, 2013, the Company completed a $200,000 public offering of second lien senior secured notes which bear interest at 8.625% and mature on April 18, 2018. The second lien senior notes contain optional redemption features which are at the option of the Company commencing on April 18, 2016. The Company used the proceeds from this offering to repay $184,503 of its Term Loan and Revolving Credit Facility and $10,000 of preferred partnership units.

On April 18, 2013, the Company entered into an amended and restated credit agreement with its senior lenders. The amended and restated agreement revises the Company's Revolving Facility to a maximum borrowing limit of $50,000 which matures and is payable on June 9, 2015 and bears interest on a sliding scale from prime plus 1.5% to prime plus 3.75% for principal borrowed and a range of 0.63% to 1.19% for standby fees for amounts note borrowed. As part of the amended and restated agreement, the Company and its senior lenders also amended financial performance covenants for the remaining life of the agreement which concludes in June 2015. The Company utilized $20,000 of the Revolving Facility in the second quarter of 2013 to repay preferred partnership units. At December 31, 2013, the Company had borrowed $23,000 against the Revolving Facility.

Subsequent to December 31, 2013, the Company and its senior lenders made further amendments to the Revolving Facility for financial performance covenants for 2014 and beyond. The amendments resulted from the funding reductions in Ontario from the MOHLTC for seniors physiotherapy services and a perceived conflict of interest matter which impacts the profitability of Motion Specialties and the Seniors Wellness operations. The Company's results for the fourth quarter of 2013 were also impacted by an adjustment of approximately $7.8 million arising from the Company's year end physical inventory count and valuation. These factors may impact the Company's ability to meet future forecasted results. On March 27, 2014, the Company and its senior lenders amended the Revolving Facility, which included amendments to certain financial performance covenants for 2014 and beyond. The Company and its senior lenders also acknowledged that as permitted in the existing Revolving Facility agreement, the adjustment of approximately $7.8 million arising from the Company's year end physical inventory count and valuation would be treated as an addback in its covenant calculations for the year ended December 31, 2013. The Company was in compliance with its financial performance covenants at December 31, 2013.

The Company has completed its revised operating budget for 2014 which now incorporates funding reductions in Ontario from the MOHTLC for seniors physiotherapy services, revised profitability projections for the Company's retail and home medial equipment segment based on full year results for 2013 and other planned growth and operational improvement initiatives. Notwithstanding the annualized impact of these changes, the Company's 2014 budget reflects an improvement over the Company's 2013 results through organic growth, operational improvements and cost containment initiatives. Based on its 2014 operating budget and cash flow management initiatives, the Company believes it will be in compliance with the new financial performance covenants for the Revolving Facility at each quarterly measurement date through to the end of 2014. The Company also anticipates that based on meeting its 2014 operating budget, it will generate sufficient cash flow from operations in 2014 to meet its obligations as they come due. There can be no assurance that the Company will be successful in achieving the results as set out in its operating plan for each of the quarters in 2014.

The Company’s second lien senior secured notes contain incurrence covenants which restrict any addition of debt subject to the achievement of certain financial metrics. The Company also is seeking alternatives to repay the preferred partnership units which would improve cash flow and potentially reduce the overall debt levels.

The Company previously intended to repay its preferred partnership units by their third anniversary date of June 9, 2014. Due to current market conditions, the Company has amended this intention and now intends to progressively pay down the preferred parternship units through to 2017. However, the Company will continue to monitor market conditions and will seek to accelerate this timeline under appropriate circumstances. The preferred partnership units mature in 2084.

Cash Flow

Cash flow activities for the years ended December 31, 2013 were as follows:

Operating Activities

For the year ended December 31, 2013, cash provided by operating activities was $20,204, compared to $15,314 for the year ended December 31, 2012. 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. Since this initiative, the Company has generated positive cash flows from operating activities for seven consecutive quarters. In addition, included in operating activities are transaction and restructuring costs incurred of $5,403 for the year ended December 31, 2013. Cash provided by operating activities, exclusive of transaction and restructuring costs, was $25,607 for the year ended December 31, 2013.

Investing Activities

For the year ended December 31, 2013, the Company used $11,831 for investing activities as compared to $29,084 for the year ended December 31, 2012. This decrease in investing activities as compared to the prior year is due to the acquisition of Motion Specialties and five physiotherapy clinics in the first quarter of 2012. The Company's capital expenditures were $9,342 for the year ended December 31, 2013 as compared to $8,440 for the same period in the prior year. This increase can mainly be attributed to costs associated with the integrated IT system implementation in the Company's Retail and Home Medical Equipment segment. Overall, the Company's operations tend to require minimal levels of capital investment.

Financing Activities

During the year ended December 31, 2013, the Company repaid $184,503 for its Term Loan and original Revolving Facility from the net proceeds of $194,034 which were received from the issuance of second lien senior secured notes in April 2013. For the year ended December 31, 2013, the Company borrowed an additional $23,000 from its restated and amended Revolving Facility. The Company utilized $30,000 from proceeds from the second lien senior secured notes and the restated and amended Revolving Facility to redeem preferred partnership units whose interest rate was higher than the Company's senior debt facilities. The Company paid $23,392 in cash interest on its borrowings for the year ended December 31, 2013.

$000's (except for per share amounts)

Contractual Commitments[4]

The Company's contractual commitments at December 31, 2013, are as follows:

	Total ($)	1 year ($)	2-3 years ($)	4-5 years ($)	Thereafter ($)
Second lien senior secured notes	200,000	—	—	200,000	—
Revolving facility	23,000	—	23,000	—	—
Operating leases	71,548	14,218	24,778	16,890	15,662
Interest payments on borrowings	96,670	21,286	40,136	35,248	—
Finance leases	265	181	84	—	—
	391,483	35,685	87,998	252,138	15,662
Preferred partnership units[5]	35,500	—	25,000	10,500	—
	426,983	35,685	112,998	262,638	15,662

[4] Contractual commitments are presented based on the Company's legal obligation to remit payment, except for the preferred partnership units which is presented based on the Company's intention to repay the preferred partnership units over the period to June 9, 2017. The Company does not have a legal obligation to repay the preferred partnership units until 2084.

[5] The Company does not have an obligation to redeem the preferred partnership units as presented. The preferred partnership units have a legal obligation to be repaid in 2084.

On April 18, 2013, the Company completed a $200,000 public offering of second lien senior secured notes which bear interest at 8.625% and mature on April 18, 2018.

The Company has a contractual obligation to pay Alaris Income Growth Fund ("Alaris") annual distributions on preferred partnership units. On April 18, 2013, the Company repaid $22,500 of the preferred partnership units and on June 9, 2013 repaid $7,500 of the preferred partnership units. Alaris is entitled to annual distributions of $3,957 for the annual period commencing July 1, 2013 with annual increases of 4% at the end of each year thereafter. The principal amount grows at 4% annually from the third anniversary. he Company is not required to redeem the preferred partnership units until 2084. The Company intends on repaying the preferred partnership units over the period to June 9, 2017. The Company has presented this amount as a current liability as it is the Company's intention to redeem the preferred, subject to agreements with senior lenders and the availability of financing at a lower rate. The Company previously intended to repay the preferred partnership units by their third anniversary however revised this intention as a result of current market conditions for financing at a lower rate.

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 Revolving Facility bears interest on a sliding scale from prime plus 1.5% to prime plus 3.75% for principal borrowed and a range of 0.63% to 1.19% for standby fees for amounts not borrowed.

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 which may be settled in cash or common shares at the option of the holder 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. On November 5, 2013, the Company renegotiated the Jamon promissory note such that its maturity date will be April 30, 2018 and the associated warrants to purchase common shares will expire on April 30, 2018. The conversion price for the note and the strike price for the warrants is $0.46. The conversion of the note is at the option of the holder.

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.

$000's (except for per share amounts)

Equity

As at December 31, 2013, the Company had total shares outstanding of 152,995,764. The outstanding shares include 19,632,470 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 and cancellation 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 133,363,294 common shares outstanding as at December 31, 2013 and 121,389,445 shares outstanding at December 31, 2012.

During the year ended December 31, 2013, the Company issued 168,917 common shares from treasury and released 129,383 common shares from escrow to the vendors of physiotherapy clinics as consideration for the earn-out agreements for these acquisitions.

On November 2, 2013, the Company issued 714,286 (December 31, 2012 - 714,284) common shares and 98,918 warrants to the vendors of CAR as the consideration of the third and final year of their earn-out agreement.

On August 30, 2013, the Company issued 100,000 restricted share units to management and employees which entitles the holders to 100,000 common shares of the Company over a three year vesting period. These restricted share units have been fair-valued based on the quoted market price on the date of issuance of $0.44 per share.

On June 3, 2013, the Company issued 1,718,555 restricted share units to management and employees which entitles the holders to 1,718,555 common shares of the Company. Of the restricted share units issued, 713,054 vest immediately, 543,841 vest in one year, 230,830 vest in two years and 230,830 vest in three years. These restricted share units have been fair-valued based on the quoted market price on the date of issuance of $0.49 per share.

On May 28, 2013, the Company issued 100,000 restricted share units to management and employees which entitles the holders to 100,000 common shares of the Company over a three year vesting period. These restricted share units have been fair-valued based on the quoted market price on the date of issuance of $0.53 per share.

On March 15, 2013, the Company released 34,134 common shares to the vendors of LSC as consideration for the first year of the earn-out agreement for this acquisition.

On February 12, 2013, the Company released 2,810,094 common shares and 5,000,000 share purchase warrants to the vendors of Classic Care Pharmacy Corporation ("Classic Care").

As a result of employment arrangements with the vendor of Performance, the Company released 1,500,000 escrowed shares on February 5, 2013 to the vendor of Performance.

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. On January 1, 2013, 200,000 of these restricted shares became freely tradeable.

The Company has convertible borrowings outstanding at December 31, 2013 where the conversion is at the option of the Company as follows:

Debt instrument	Principal $	Number of Common Shares Issuable	Maturity	Interest Rate
Directed share program	10,888	3,489,744	December 22, 2016	6.00%
Private placement	15,000	16,129,032	April 30, 2016	5.50%
Public debt	27,500	24,553,571	October 31, 2017	6.75%
	53,388	44,172,347		

As at December 31, 2013, there were a total of 8,806,000 options outstanding to purchase an equivalent number of common shares, with a weighted average exercise price of $1.37, expiring at various dates through 2017. The number of exercisable options at December 31, 2013, was 4,439,250 with a weighted average exercise price of $1.37.

As at December 31, 2013, there were a total of 1,583,548 restricted share units to grant an equivalent number of common shares, with a weighted average exercise price of $$0.56, expiring at various dates through 2016.

As at December 31, 2013, there were 33,177,310 warrants outstanding at a weighted average exercise price of $0.71 During the years ended December 31, 2013, in addition to the 5,000,000 warrants issued to the vendors of Classic Care, 1,000,000 warrants issued to Jamon and 98,918 warrants issued to the vendors of CAR, there were 1,498,200 warrants that expired.

Should all outstanding options and warrants that were exercisable at December 31, 2013 be exercised, the Company would receive proceeds of $29,726.

As at the date of this report, March 31, 2014, the number of shares outstanding, including escrowed shares, is 152,995,766; the number of options outstanding is 8,266,000; the number of warrants outstanding is 33,777,310; and the number of restricted share units outstanding is 1,550,269. Included in the shares outstanding are 24,434,781 restricted shares, shares held in escrow, or in trust, and are not freely tradable.

Transactions with Related Parties

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, who own 40,901,287 shares or approximately 27% of the issued and outstanding common shares of the Company as at December 31, 2013. This ownership percentage disclosed assumes the issuance of 19,632,470 escrowed and restricted shares in the total common shares considered to be outstanding.

On March 21, 2013, GHIS and the Company negotiated an amended consulting agreement which eliminated the completion fees, removed the consulting fees for the year ended December 31, 2013, and amended the consulting fees to $75 per month from January 2014 to the completion of the agreement in June 2015. The Company issued 4,802,311 common shares to GHIS on July 3, 2013 which is 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. These common shares are subject to a one year hold period unless the Company's Board of Directors approves an earlier release date. The Company's shareholders approved the amended consulting agreement on May 9, 2013. The Company has recorded stock based compensation expense of $2,785 for the year ended December 31, 2013 representing the fair value of the shares approved on May 9, 2013. On March 21, 2013, GHIS waived their consulting fees for the fourth quarter of 2012.

For the year ended December 31, 2013, the Company incurred $103 (December 31, 2012 - $184) in GHIS travel and related expenses, $344 (December 31, 2012 - $781) in interest on related party amounts, $nil (December 31, 2012 - $900) in advisory fees and $nil (December 31, 2012 - $192) for completion fees.

Included in trade payables and other amounts at December 31, 2013 and December 31, 2012 are $4,228 and $4,976, respectively, due to GHIS; and $ 25 and $76, 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 subject to the Credit Agreement between the Company and its senior lenders. Any outstanding consulting fees which are unpaid bear interest at 8% per annum.

Related party loans

The Company had a promissory note with Jamon for $5,000 that bore interest at 6% with a conversion feature of one share per one dollar of principal amount which was due on 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 expired on November 9, 2013. On November 5, 2013, the Company renegotiated this promissory note such that its maturity date will be April 30, 2018 and the warrants to purchase common shares will expire on April 30, 2018. The conversion price for the note and the strike price for the warrants is $0.46. The conversion of the note is at the option of the holder.

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 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. Effective January 1, 2013, 200,000 of these restricted shares became freely tradeable. Effective January 1, 2014 an additional 100,000 of these shares became freely tradeable.

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.

As part of the year end financial close process, the Company identified a material weakness in the design and operating effectiveness of internal control over financial reporting as it relates to the valuation of inventory for its Motion Specialties operations for period end reporting purposes. Motion Specialties does not have a perpetual inventory system to track its inventory and has used the retail method to determine its period end inventory balances. The retail method requires the use of an estimated gross margin to determine inventory and cost of goods sold balances. An annual inventory count is performed at year end in order to more precisely determine the value of inventory and cost of goods sold. Upon completing the annual inventory count for the year ended December 31, 2012, the Company utilized the actual 2012 gross margin by store for Motion Specialties to adjust its inventory and cost of sales on a monthly basis in 2013. As part of its year end financial close process, Motion Specialties performed an inventory count at December 31, 2013. Upon the completion of the inventory count and subsequent valuation of the inventory, an adjustment of approximately $7.8 million was identified which reduced inventory and increased the cost of goods sold. This material weakness relates specifically to the Company's period end procedures to determine the cost of goods sold and inventory cost for Motion Specialties. This material weakness is a result of poor information systems at Motion Specialties, including the lack of a perpetual inventory system. Given the limitations of Motion Specialties existing systems, the retail method on its own is not sufficient to provide an accurate estimate for the valuation of inventory and cost of goods sold at a reporting period.

To address this material weakness the Company will perform inventory counts and inventory valuations at the end of each quarter over its retail and home medical equipment inventory and adjust its inventory and cost of good sold balances based on the results of these procedures.

In addition, the Company is continuing with its plan to implement a perpetual inventory system at all retail and home medical equipment store locations. Perpetual inventory systems have been implemented on a pilot basis at two locations and at this time, the Company expects to implement the perpetual inventory system to cover approximately half of the aggregated inventory value of all Motion and MEDIchair corporate stores by the end of the current fiscal year. As integration work continues to improve systems and related policies and procedures, the quarterly count procedure discussed above will be continued until all stores have been successfully migrated to a perpetual inventory system with appropriate controls and practices, including regular cycle count procedures.

The Certifying Officers have concluded that except for the matter denoted above, as at December 31, 2013, 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. The Company uses the COSO control framework to evaluate the design of 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, 2013, which has materially affected, or is reasonably likely to materially affect the Company's ICFR.

Off-Balance Sheet Arrangements

As at December 31, 2013, the Company has no off-balance sheet arrangements.

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 August 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 of goodwill or indefinite life intangible assets for the three month period ended December 31, 2013 except for an impairment of the Physiotherapy - Seniors Wellness CGU of $14,000 and an impairment of the Retail and Home Medical CGU of $4,500. The Company completed a reconciliation between their market capitalization and the fair value of their CGUs in order to confirm the conclusions reached.

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 $13,500 which the Company has not recorded at December 31, 2013 in respect of certain non-capital losses.

Accounting Changes

Effective January 1, 2013, the Company adopted the following accounting standards:

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

IFRS Standard 10, *Consolidated Financial Statements* (“IFRS 10”) which replaces 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 statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS Standard 12, *Disclosure of Involvement with Other Entities* (“IFRS 12”) includes disclosure requirements that enable the users of the financial statements to evaluate the risks associated with and the nature of the Company's investments in 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 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 to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The adoption of these standards did not impact the measurement of balances on the Company's condensed unaudited interim consolidated financial statements. The Company has included additional note disclosures, where applicable, in the condensed unaudited interim consolidated financial statements as a result of adopting these standards.

Effective January 1, 2013, the Company amended its policy for capitalizing surgical inventory. The Company will now include in inventory all surgical inventory irrespective of initial cost, whereas previously the Company expensed any individual surgical items with a value less than $500 (actual dollars). As a result of changing this accounting policy, the Company has increased its opening inventory and retained deficit balances by $765.

Risks and Uncertainties

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

Government Regulation and Funding

The Company operates businesses in an environment in which insurance regulation, policy and 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.

The Company was included in proceedings as part of the Designated Physiotherapy Clinics Association of Ontario who sought a judicial review of proposed regulatory changes announced by the Ontario Ministry of Health in April 2013 related to physiotherapy services for seniors. On July 26, 2013, the proposed changes were suspended by the Ontario Divisional Court, until this case was heard by a three judge panel on August 21, 2013. The three judge panel accepted the changes and they came into force on August 22, 2013. The Company is in the process of adjusting its business model as a result of these regulatory changes and has provided its best estimate of its future impact. The actual future operating results may differ from the Company's estimates due to the current uncertainty during this transition period for the delivery of physiotherapy services to seniors in Ontario.

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.

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.

The Company had stated that its intention to repay preferred partnership prior to their third anniversary. The Company's ability to make this repayment was dependent on the Company's free cash flow and the completion of alternative financing arrangements with more favorable terms. The Company has amended this intention in the fourth quarter of 2013 and now intends to repay the preferred partnerships by June 2017. There can be no certainty that the Company can generate the cash requirements to make this repayment prior to June 2017, however **the Company has no legal obligation to repay the preferred partnership units by the third anniversary date**. If the Company's determines that this intention can not be met as reported, the Company will establish a new timeline for the repayment of the preferred partnership units. There is no legal obligation to repay the preferred partnership units until 2084.

Competition

The markets for Centric Health's products and services are intensely competitive, subject to rapid change and significantly affected by market activities of other industry participants. Other than relationships the Company has built up with insurance companies, healthcare providers, retirement homes and long-term care homes and patients, there is little to prevent the entrance of those wishing to provide similar services to those provided by Centric Health and its subsidiaries. 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 Health will be able to compete effectively for these referrals and healthcare professionals, that additional competitors will not enter the market, that such competition will not make it more difficult or expensive to provide disability management services or that competitive pressures in the provision of these services in a geographic region will not otherwise adversely affect Centric Health. The Company has entered into agreements with long-term care and retirement homes for the provision of pharmacy, physiotherapy and retail and home medical products and services. As these agreements reach their conclusion, there can be no assurances that the counterparties will renew or extend these agreements.

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. Where the Company has material contracts with a counterparty to provide products and/or services, the termination of such contracts could have an impact on the financial results of an operating segment.

Acquisitions and Integration

The Company expects to make acquisitions of various sizes that fit particular niches within Centric Health'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 Health integrates these acquired companies into its existing businesses may have a significant short-term impact on Centric Health's ability to achieve its growth and profitability targets.

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

(a) Management may not be able to manage successfully the acquired operations and the integration may place significant demands on management, thereby diverting its attention from existing operations;
(b) Operational, financial and management systems may be incompatible with or inadequate to integrate into Centric Health's systems and management may not be able to utilize acquired systems effectively;
(c) Acquisitions may require substantial financial resources that could otherwise be used in the development of other aspects of the business;
(d) Acquisitions may result in liabilities and contingencies which could be significant to the Company's operations; and
(e) Personnel from Centric Health's acquisitions and its existing businesses may not be integrated as efficiently or at the rate foreseen.

The acquisition of healthcare-related companies or assets involves a long cost recovery cycle. The sales processes for the products that these companies offer are often subject to lengthy customer approval processes 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 Health'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 Health could be adversely affected.

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

Shortage of Healthcare Professionals

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

Exposure to Epidemic or Pandemic Outbreak

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

Confidentiality of Personal and Health Information

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

Information Technology Systems

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

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

Key Personnel

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

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 Health maintains professional malpractice liability insurance, directors' and officers' and general liability insurance in amounts it believes are sufficient to cover potential claims arising out of its operations. Some claims, however, could exceed the scope of its coverage or the coverage of particular claims could be denied.

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

Accounting, Tax and Legal Rules and Laws

Any changes to accounting and/or tax standards and pronouncements introduced by authorized bodies may impact on the Company's financial performance. Additionally, changes to any of the federal and provincial laws, regulations or policies in jurisdictions where the Company operates could materially affect the Company's operations and its financial performance. The Company may also incur significant costs in order to comply with any proposed changes. The Company's failure to comply with laws, regulations or policies may expose the Company to legal or regulatory proceedings which could have a material impact on the Company's financial performance.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

The Company may face risks if there are deficiencies in its internal control over financial reporting and disclosure controls and procedures. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes. Management is responsible for establishing and maintaining adequate internal controls over financial reporting appropriate to the nature and size of the Company. The Board, in conjunction with its Audit Committee, is responsible for assessing the progress and sufficiency of internal controls over financial reporting and disclosure controls and procedures and will make adjustments as necessary. However, these initiatives may not be effective at remedying any deficiencies in internal control over financial reporting and disclosure controls and procedures. Any deficiencies, if uncorrected, could result in the Company's financial statements being inaccurate and in future adjustments or restatements of its financial statements, which could adversely affect the price of the shares and Centric Health's business, financial condition and results of operations.

Capital Investment

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

Dilution

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

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.

Ethical Business Conduct

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

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

Please see Subsequent Events for proposed transactions.

Subsequent Events

On March 5, 2014, the Company entered into a definitive agreement to sell 100% of the common shares of its Home Care business, CAR, to an arm’s length third party purchaser for proceeds of $2.5 million, subject to certain adjustments. The purchase price will be satisfied by the issuance of an eight-year note. The note is expected to bear interest at 12% per annum, subject to adjustment, payable monthly. Completion of the purchase and sale transaction is subject to certain healthcare regulatory consents, as well as customary closing conditions.

On March 27, 2014, the Company and its senior lenders amended the Revolving Facility, which included amendments to certain financial performance covenants for 2014 and beyond.

Additional Information

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

Your Care. Our Focus.

Consolidated Financial Statements
For the years ended December 31, 2013 and 2012

(in thousands of Canadian dollars)

Dated: March 31, 2014

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Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Centric Health Corporation for the years ended December 31, 2013 and 2012 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 31, 2014

March 31, 2014

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, 2013 and December 31, 2012, the consolidated statements of income and comprehensive income, equity and cash flows for the years then ended, 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 audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Centric Health Corporation
Consolidated Statements of Financial Position

(in thousands of Canadian dollars)	**December 31, 2013**	December 31, 2012 (Restated - note 1)
	$	$
Assets		
Current assets		
Cash and cash equivalents	**—**	594
Trade and other receivables (note 18)	**58,531**	58,325
Inventories (note 5)	**23,953**	27,729
Income taxes recoverable	**—**	187
Prepaid expenses	**2,072**	2,258
	84,556	89,093
Non-current assets		
Property and equipment (note 8)	**26,335**	25,002
Goodwill and intangible assets (note 9)	**270,877**	353,720
Deferred income tax assets (note 13)	**9,140**	18,285
Loans receivable (note 4)	**184**	444
Investments in franchisees (note 4)	**208**	208
Total assets	**391,300**	486,752
Liabilities		
Current liabilities		
Bank indebtedness	**2,625**	—
Trade payables and other amounts (notes 6, 15, 16 and 18)	**62,599**	66,186
Current portion of borrowings (note 10)	**—**	19,576
Current portion of finance lease liabilities (note 12)	**181**	911
Current portion of contingent consideration (note 7)	**217**	5,389
Income taxes payable	**1,232**	—
	66,854	92,062
Non-current liabilities		
Borrowings (note 10)	**257,571**	184,612
Preferred partnership units (note 11)	**35,500**	65,500
Contingent consideration (note 7)	**1,407**	11,580
Finance lease liabilities (note 12)	**84**	256
Deferred income tax liabilities (note 13)	**10,283**	26,932
Deferred lease incentives	**2,848**	1,472
Derivative liability portion of convertible borrowings (note 10)	**1,720**	8,409
Derivative financial instruments (note 10)	**120**	823
Total liabilities	**376,387**	391,646
Equity		
Share capital (note 17)	**99,081**	92,201
Warrants	**6,590**	6,256
Contributed surplus	**11,179**	7,928
Equity portion of convertible borrowings	**7,119**	6,498
Accumulated other comprehensive income	**28**	201
Deficit	**(109,822)**	(18,731)
Equity attributable to shareholders of Centric Health Corporation	**14,175**	94,353
Non-controlling interests	**738**	753
Total equity	**14,913**	95,106
Total liabilities and equity	**391,300**	486,752

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,	
	2013	2012
	$	$
Revenue	**455,864**	436,651
Cost of healthcare services and supplies	**238,463**	221,056
General and administrative expenses (notes 3 and 16)	**225,289**	213,442
Transaction and restructuring costs (note 6)	**5,403**	11,422
Loss from operations	**(13,291)**	(9,269)
Interest expense (note 14)	**36,194**	24,350
Change in fair value of derivative financial instruments (note 10)	**(4,886)**	(1,947)
Change in fair value of contingent consideration liability (note 7)	**(12,562)**	(51,164)
Impairments (note 9)	**59,507**	27,421
Loss before income taxes	**(91,544)**	(7,929)
Income tax recovery (note 13)	**(694)**	(841)
Net loss	**(90,850)**	(7,088)
Other comprehensive loss:		
Amortization of deferred gain on interest rate swaps	**(173)**	(40)
Change in fair value of interest rate swaps designated as hedges (note 10)	**—**	314
Comprehensive loss	**(90,677)**	(7,362)
Net (loss) income attributable to:		
Shareholders of Centric Health Corporation	**(91,091)**	(7,258)
Non-controlling interests	**241**	170
Comprehensive (loss) income attributable to:		
Shareholders of Centric Health Corporation	**(90,918)**	(7,532)
Non-controlling interests	**241**	170
Basic loss per common share	**($0.70)**	($0.06)
Diluted loss per common share	**($0.70)**	($0.06)
Weighted average number of common shares outstanding (in thousands) (note 17)		
Basic	**129,032**	114,140
Diluted	**184,984**	154,070

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]	Share Capital $	Warrants $	Contributed surplus $	Equity portion of convertible borrowings $	AOCI[2] $	Deficit $	Equity attributable to the shareholders of Centric Health Corporation $	Non-controlling interest $	Total $
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
Public 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**
Balance at December 31, 2012 (restated - note 1)	121,389,445	92,201	6,256	7,928	6,498	201	(18,731)	94,353	753	95,106
Options and restricted share units vested and issued	1,614,724	858	—	(264)	—	—	—	594	—	594
Shares released from escrow or treasury and warrants issued as contingent consideration	3,856,814	2,033	674	—	—	—	—	2,707	—	2,707
Shares released from escrow for compensation	1,500,000	915	—	—	—	—	—	915	—	915
Expiry of warrants	—	—	(297)	297	—	—	—	—	—	—
Settlement of interest rate swap	—	—	—	—	—	(138)	—	(138)	—	(138)
Amortization of deferred gain on interest rate swap	—	—	—	—	—	(35)	—	(35)	—	(35)
Shares issued to GHIS for an amended consulting agreement (note 16)	4,802,311	2,785	—	(2,785)	—	—	—	—	—	—
Extinguishment of related party loan (note 16)	—	—	(289)	1,132	(843)	—	—	—	—	—
Renegotiated related party loan (note 16)	—	—	153		1,464	—	—	1,617	—	1,617
Deferred compensation expense	200,000	289	93	4,871	—	—	—	5,253	—	5,253
Payments to non-controlling interests	—	—	—	—	—	—	—	—	(256)	(256)
Net (loss) income for the year	—	—	—	—	—	—	(91,091)	(91,091)	241	(90,850)
Balance at December 31, 2013	**133,363,294**	**99,081**	**6,590**	**11,179**	**7,119**	**28**	**(109,822)**	**14,175**	**738**	**14,913**

[1] Excludes 19,632,470 of contingent shares held in escrow and restricted shares at December 31, 2013 (note 17).

[2]AOCI – Accumulated other comprehensive income (loss). Balances have been or will be reclassified to net income when appropriate.

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,	
	2013	2012
	$	$
Cash provided by (used in):		
Operating activities		
Net loss for the year	**(90,850)**	(7,088)
Adjustments for:		
Interest expense (note 14)	**36,194**	24,350
Change in fair value of derivative financial instruments (note 10)	**(4,886)**	(1,947)
(Gain) loss on disposal of property and equipment	**(3)**	432
Depreciation of property and equipment	**7,477**	7,101
Amortization of finite-life intangible assets	**27,107**	28,340
Amortization of lease incentives	**383**	342
Leasehold inducements	**992**	668
Income taxes paid	**(5,223)**	(5,956)
Income tax recovery	**(694)**	(841)
Stock-based compensation expense	**6,520**	4,464
Impairments	**59,507**	27,421
Change in the fair value of contingent consideration liability (note 7)	**(12,562)**	(51,164)
Net change in non-cash working capital items (note 22)	**(3,758)**	(10,808)
Cash provided by operating activities	**20,204**	15,314
Investing activities		
Purchase of intangible assets (note 9)	**(1,258)**	(512)
Purchase of property and equipment (note 8)	**(8,084)**	(7,928)
Acquisition of businesses (note 6)	**(1,686)**	(19,492)
Payment of contingent consideration (note 7)	**(1,063)**	(1,581)
Decrease in loans receivable from franchisees	**260**	429
Cash used in investing activities	**(11,831)**	(29,084)
Financing activities		
Bank indebtedness	**2,625**	—
Interest paid	**(23,392)**	(19,432)
Repayment of borrowings	**(188,253)**	(27,500)
Proceeds from second lien senior secured notes, net of loan arrangement costs	**194,034**	—
Proceeds from Term Loan and Revolving Facility, net of loan arrangement costs	**14,945**	18,589
Proceeds from new Revolving Facility (note 10)	**23,000**	—
Repayment of preferred partnership units (note 11)	**(30,000)**	—
Repayment of finance leases	**(950)**	(1,443)
Payments to non-controlling interests	**(256)**	(188)
Proceeds on disposal of property and equipment	**3**	—
Settlement of interest rate swaps (note 10)	**(966)**	—
Issuance of common shares, warrants and convertible debt, net of issuance costs	**243**	43,931
Cash (used in) provided by financing activities	**(8,967)**	13,957
(Decrease) increase in cash and cash equivalents	**(594)**	187
Cash and cash equivalents, beginning of period	**594**	407
Cash and cash equivalents, end of period	**—**	594

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 the Company 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, unless otherwise noted, 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, 2013. These policies have been consistently applied to all periods presented.

These annual consolidated financial statements were approved by the Board of Directors on March 31, 2014.

The significant accounting policies used in the preparation of these annual consolidated financial statements are described below.

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"), Performance Medical Group ("Performance") and SmartShape Weight Loss Centres ("SmartShape") which the Company controls with an ownership of 75% of the outstanding shares of each of these entities.

Effective January 1, 2013, the Company adopted the following IFRS standards related to consolidation:

- IFRS Standard 10, *Consolidated Financial Statements* ("IFRS 10") which replaces 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 statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

- IFRS Standard 12, *Disclosure of Involvement with Other Entities* ("IFRS 12") includes disclosure requirements that enable the users of the financial statements to evaluate the risks associated with and the nature of the Company's investments in subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements.

1. Significant Accounting Policies - continued

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

The adoption of these standards did not significantly impact the measurement of balances on the Company's annual consolidated financial statements.

The Company is deemed to control its subsidiaries as the Company is exposed to and has the rights to variable returns of the subsidiaries and has the substantive rights to direct the subsidiaries relevant activities, generally through a shareholding of more then one-half the voting rights over financial and operating policies. 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.

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.

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.

Investments in franchisees

The Company holds ownership interests in three franchisees. Investments in franchisees are recorded on the equity basis of accounting as the Company exercises significant influence over the franchisees.

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.

1. Significant Accounting Policies - continued

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:

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

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, bank indebtedness, 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.

Effective January 1, 2013, the Company adopted the following accounting standards related to financial instruments:

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

1. Significant Accounting Policies - continued

- 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.

The Company has included additional note disclosures in the annual consolidated financial statements related to these standards, where applicable.

Derivative financial instruments

Derivative financial instruments designated as a hedge
The Company may hold 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 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.

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 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 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.

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.

Effective January 1, 2013, the Company amended its policy for capitalizing surgical inventory. The Company will now include in inventory all surgical inventory irrespective of initial cost, whereas previously the Company expensed any individual surgical items with a value less than $500 (actual dollars). As a result of changing this accounting policy, the Company has increased its opening inventory and decreased its retained deficit balances by $765.

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	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.

1. Significant Accounting Policies - continued

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 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.

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 income as follows:

Licences	Term of the licence
Computer software	7 years or 30% declining balance
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.

Effective January 1, 2013, the Company early adopted IAS 36, *Impairment of Assets ("IAS 36")* which has been amended for modified disclosure requirements. This standard is effective for annual periods beginning on or after January 1, 2014.

Goodwill
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 ("CGU"), 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 9.

1. Significant Accounting Policies - continued

Indefinite-life intangible assets
The Company has indefinite-life intangible assets in relation to its hospital licence, sleep clinic licence and the Community Care Access Centre (“CCAC”) contract. The hospital license allows the Don Mills Surgical Unit (“DMSU”) to privately operate a hospital in the province of Ontario. 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.

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 income. The recoverable amount of an asset is the higher of its fair value, less costs of disposal, 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.

In the current year, the Company has changed the date of its annual impairment test for goodwill and indefinite life intangible assets to August 31st from December 31st in order to ensure timely completion and reporting of the Company's annual consolidated financial statements. The annual impairment test for goodwill and indefinite life intangible assets will be completed annually as at August 31st.

Non-financial assets, other than goodwill, that have previously been impaired 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

1. Significant Accounting Policies - continued

conversion rights 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 the conversion rights entitle either the holder or the Company 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.

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 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 may 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 a liability and an expense for termination benefits at the earlier of when the entity can no longer withdraw the offer of those benefits or when the Company recognizes costs for a restructuring that includes termination benefits. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

1. Significant Accounting Policies - continued

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 other 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.

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 annual 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 annual 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 on either the same taxable entity or different taxable entities 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.

1. Significant Accounting Policies - continued

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 retail and home medical equipment 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.

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 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,

1. Significant Accounting Policies - continued

along with the proceeds received on the exercise. If the share options expire unexercised, 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.

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 that are classified as equity are initially measured at fair value. The fair value of the warrants are 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, restricted share units, convertible debt and warrants.

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

1. Significant Accounting Policies - continued

determined based on their fair value less cost of disposal. 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.

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.

Accounting standards issued but not yet adopted

IFRS Standard 9 *Financial Instruments* establishes principles for the financial reporting of financial assets and financial liabilities that will provide users of the financial statements with relevant and useful information for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. It was also recently amended to include new hedging requirements and to remove the previous mandatory effective date (for annual periods beginning on or after January 1, 2015). The Company has currently not assessed the impact of adopting this amended standard.

IFRS 10 *Consolidated Financial Statements* was amended to establish whether an entity meets the definition of an an investment entity and sets out guidance on consolidation. An investment entity shall not consolidate its subsidiaries or apply IFRS 3 *Business Combinations* when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments.* This amended standard is effective for annual periods beginning on or after January 1, 2014.

IFRS 12 *Disclosure of Interests in Other Entities* was amended to include disclosure requirements for investment entities as defined in IFRS 10 *Consolidated Financial Statements.* When a parent determines that it is an investment entity in accordance with IFRS 10, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity. Furthermore if the entity is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss it shall disclose that fact. The standard provides further disclosure requirements related to investments by an investment entity. This amended standard is effective for annual periods beginning on or after January 1, 2014.

IAS 27 *Separate Financial Statements* was amended to include requirements for the preparation of separate financial statements and disclosure requirements for investment entities as defined in IFRS 10 *Consolidated Financial Statements.*This amended standard is effective for annual periods beginning on or after January 1, 2014.

1. Significant Accounting Policies - continued

IAS 32 *Financial Instruments: Presentation* was amended to provide further guidance on the application of the established criterion to offset a financial assets with a financial liability. This amended standard is effective for annual periods beginning on or after January 1, 2014.

The adoption of the amended standards for IFRS 10, IFRS 12, IAS 27 and IAS 32 will not have a significant impact on the Company's annual or interim consolidated financial statements.

2. Liquidity Risk, Capital Management and Financing

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 establishes quantitative return on capital criteria, which it reviews with management on a regular basis. The Company defines capital to include share capital, warrants and the stock option component of its shareholders' equity as well as its Revolving Credit Facilities, second lien senior secured notes, convertible debts, 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 financing through the issuance of securities such as convertible debt, or by replacing existing debt with debt on terms more consistent with the Company's needs.

In April 2013, the Company completed a prospectus supplement for the issuance of second lien senior secured notes for gross proceeds of $200,000. The net proceeds from the offering were used to repay the Company's Term Loan and Revolving Facility and to repay $10,000 of preferred partnership units. In addition, the Company amended and restated its existing credit agreement to provide a new Revolving Facility with a limit of $50,000. During the second quarter of 2013, the Company also paid an additional $20,000 of the preferred partnership units through an equivalent draw on the new Revolving Facility. The new Revolving Facility included amended financial performance covenants through to its maturity in June 2015. The Company’s second lien senior secured notes contain incurrence covenants which restrict any addition of debt subject to the achievement of certain financial metrics. Further details of these transactions are discussed in notes 10 and 11. In November 2013, the Company also refinanced the $5,000 convertible loan due to Jamon Investments LLC (“Jamon”), a related party, which was due November 9, 2013 as described in note 16.

Subsequent to December 31, 2013, the Company and its senior lenders made further amendments to the Revolving Facility for financial performance covenants for 2014 and beyond. The amendments resulted from the funding reductions in Ontario from the Ministry of Health and Long Term Care for seniors physiotherapy services and a perceived conflict of interest matter which impacts the profitability of Motion Specialties Inc. ("Motion Specialties") and the Seniors Wellness operations. The Company's results for the fourth quarter of 2013 were also impacted by an adjustment of approximately $7.8 million arising from the Company's year end physical inventory count and valuation. These factors may impact the Company's ability to meet future forecasted results. On March 27, 2014, the Company and its senior lenders amended the Revolving Facility, which included amendments to certain financial performance covenants for 2014 and beyond. The Company and its senior lenders also acknowledged that as permitted in the existing Revolving Facility agreement, the adjustment of approximately $7.8 million arising from the Company's year end physical inventory count and valuation would be treated as an addback in its covenant calculations for the year ended December 31, 2013. The Company was in compliance with its financial performance covenants at December 31, 2013.

(in thousands of Canadian dollars)

2. Liquidity Risk, Capital Management and Financing - continued

The Company has completed its revised operating budget for 2014 which now incorporates funding reductions in Ontario from the Ministry of Health and Long Term Care for seniors physiotherapy services, revised profitability projections for the Company's retail and home medical equipment segment based on full year results for 2013 and other planned growth and operational improvement initiatives. Notwithstanding the annualized impact of these changes, the Company's 2014 budget reflects an improvement over the Company's 2013 results through organic growth, operational improvements and cost containment initiatives. Based on its 2014 operating budget and cash flow management initiatives, the Company believes it will be in compliance with the new financial performance covenants for the Revolving Facility at each quarterly measurement date through to the end of 2014. The Company also anticipates that based on meeting its 2014 operating budget, it will generate sufficient cash flow from operations in 2014 to meet its obligations as they come due. There can be no assurance that the Company will be successful in achieving the results as set out in its operating plan for each of the quarters in 2014.

3. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	For the years ended December 31,	
	2013	2012
	$	$
Employee costs	**106,877**	96,425
Other operating expenses	**61,489**	60,666
Corporate office expenses	**15,822**	16,014
Depreciation and amortization	**34,584**	35,441
Stock-based compensation expense	**6,520**	4,464
(Gain) loss on disposal of property and equipment	**(3)**	432
	225,289	213,442

4. Loans Receivable and Investments in Franchisees

Loans receivable from franchisees of $184 (December 31, 2012 - $444) 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.

The Company has investments in three franchisees. The acquired interests in these franchisees is $208 (December 31, 2012 - $208). These franchisees had no earnings attributable to the Company for the year ended December 31, 2013 (December 31, 2012 - $nil).

(in thousands of Canadian dollars)

5. Inventories

The Company's inventory balances as at December 31, 2013 and December 31, 2012 consisted of the following:

	December 31, 2013	December 31, 2012 (Restated - note 1)
	$	$
Retail and home medical equipment	**18,529**	22,232
Medical supplies and prescription drugs	**5,424**	5,497
	23,953	27,729

Inventories that were expensed during the current year were $111,632 (2012 - $89,678).

Provisions for the impairment of inventory for the years ended December 31, 2013 and 2012 are as follows:

	2013 **$**	**2012** **$**
Balance, beginning of year	**704**	—
Acquisitions	**—**	47
Additions	**516**	657
Balance, end of year	**1,220**	704

There were no reversals of inventory provisions for the years ended December 31, 2013 and 2012. Inventories are pledged as security as part of the Company's lending agreements as outlined in note 10.

(in thousands of Canadian dollars)

6. Business Combinations

SmartShape Weight Loss Centres

On December 2, 2013, the Company acquired 75% of the shares of SmartShape. SmartShape provides state-of-the-art bariatric (weight loss) surgical procedures and is located in Mississauga, Ontario within an existing surgical facility.

The total purchase price consideration includes a combination of $1,600 in cash consideration, 1,075,000 common shares to be released based on the acquired business achieving targets over a two year period and warrants to purchase up to 600,000 common shares of the Company calculated based on the out performance of certain 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.

SmartShape had revenues of $224 and a loss from operations of $10 which have been included in the Company's annual consolidated financial statements, from the date of acquisition to December 31, 2013.

Other Acquisitions

On January 4, 2013, the Company acquired the assets of a retail and home medical equipment store for cash consideration of $187.

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

Purchase price	**SmartShape $**	**Retail and Home Medical Store $**	**Total $**
Cash consideration	1,600	187	**1,787**
Contingent consideration	987	—	**987**
Total	**2,587**	**187**	**2,774**

Fair value of net assets acquired	**SmartShape $**	**Retail and Home Medical Store $**	**Total $**
Current assets	121	184	**305**
Property and equipment	50	3	**53**
Goodwill	2,614	—	**2,614**
Less: liabilities assumed	198	—	**198**
Total	**2,587**	**187**	**2,774**

The purchase price allocation for SmartShape is not final as the Company has yet to value any intangible assets obtained from this acquisition or finalize the valuation of the initial contingent consideration.

(in thousands of Canadian dollars)

6. Business Combinations - continued

Annualized performance of acquisitions

The following table illustrates the impact on revenue and income from operations, as if the acquisition of SmartShape had taken place on January 1, 2013.

Year Ended December 31, 2013	Revenue	Loss from operations
As Reported	455,864	(13,291)
SmartShape	4,446	(52)
Annualized Total	460,310	(13,343)

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 and start-up costs for new initiatives, and legal and consulting costs for business restructuring are expensed as incurred. Start-up costs for new initiatives are costs incurred by the Company for a new business initiative prior to this initiative generating any revenue. Restructuring costs include costs associated with closed clinic locations and other staffing reductions.

Transaction and restructuring costs for the years ended December 31, 2013 and 2012 consist of the following:

	For the years ended December 31,	
	2013	2012
	$	$
Transaction costs	**549**	2,934
Start-up costs	**472**	76
Restructuring costs	**4,382**	8,412
	5,403	11,422

At December 31, 2013, the Company had accrued liabilities related to restructuring costs of $2,299 (December 31, 2012 - $4,632) included in trade and other payables consisting of the following:

	Severance $	Closed Locations $	Other $	Total $
Balance at December 31, 2012	2,633	1,567	432	**4,632**
Additions	2,671	433	1,518	**4,622**
Payments	(4,329)	(724)	(1,662)	**(6,715)**
Reversals	—	—	(240)	**(240)**
Balance at December 31, 2013	**975**	**1,276**	**48**	**2,299**

(in thousands of Canadian dollars)

6. Business Combinations - continued

2012 Acquisitions

Motion Specialties

On February 13, 2012, the Company acquired 100% of the shares of Motion Specialties Inc. 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 CEC pool for tax purposes.

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 operation. The Company paid aggregate cash consideration of $5,451, 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 were 587,500 shares held in escrow as a result of these acquisitions.

The purchase price and fair value of the net assets acquired for the Company's 2012 acquisitions are as follows:

Purchase price	**Motion Specialties $**	**Physiotherapy Clinics $**	**Retail and Home Medical Stores $**	**Pharmacy $**	**Total $**
Cash consideration	13,896	2,727	2,274	450	**19,347**
Common shares	5,977	163	—	—	**6,140**
Contingent consideration	21,034	1,603	—	—	**22,637**
Total	**40,907**	**4,493**	**2,274**	**450**	**48,124**

(in thousands of Canadian dollars)

6. Business Combinations - continued

Fair value of net assets acquired	**Motion Specialties $**	**Physiotherapy Clinics $**	**Retail and Home Medical Stores $**	**Pharmacy $**	**Total $**
Current assets	35,706	566	1,504	362	**38,138**
Property and equipment	3,793	311	100	7	**4,211**
Goodwill	13,410	3,369	585	358	**17,722**
Intangibles	17,086	735	356	—	**18,177**
Deferred tax liabilities	(3,280)	(169)	—	—	**(3,449)**
Other non-current assets	—	21	—	—	**21**
Less: liabilities assumed	25,808	340	271	277	**26,696**
Total	**40,907**	**4,493**	**2,274**	**450**	**48,124**

Included in current assets for Motion Specialties are accounts receivable of $18,542 and inventory of $16,389. The purchase price allocations for Motion Specialties, Physiotherapy Clinics, Retail and Home Medical Stores and Pharmacy are final. During the year ended December 31, 2013, the Company recorded adjustments of $457 to goodwill in finalizing its purchase price allocations. These adjustments were for reductions in cash and contingent consideration of $98 and $125, respectively, reallocation of $356 to intangible assets and $122 decrease in working capital.

(in thousands of Canadian dollars)

7. Contingent Consideration

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

Acquired entity	Acquisition date	Performance term	Accrued Contingent Cash Consideration $	Issuable common shares [3]	Issuable outperformance warrants[3]	Range of value of contingent consideration $	Probability to achieve contingent consideration cash and common shares	Contingent consideration liability at December 31, 2013 $
Blue Water	Aug. 17, 2011	3 years	—	6,153,846	3,076,923	0 – 572	0%	—
Performance	Dec. 8, 2011	2 years	—	3,000,000	2,000,000	0 – 518	0%	—
Motion Specialties	Feb. 13, 2012	3 years	15,000	9,004,641	7,500,000	0 – 5,771	0%	—
SmartShape	Dec. 2, 2013	2 years	—	1,075,000	600,000	0 - 1,164	80%	**1,006**
Other	Various	3 years	70	2,073,688	1,143,007	0 – 825	0% - 100%	**618**
Total			**15,070**	**21,307,175**	**14,319,930**	**0 – 8,850**		**1,624**

[3] The issuable common shares and outperformance warrants are only issued to the vendors of the transaction to the extent that the acquired business outperforms their warranted performance targets as established in the respective transaction agreements. The number of issuable common shares and issuable outperformance warrants represent the maximum issuable at inception in the respective transaction agreements.

The maximum possible contingent consideration is an estimate. The maximum possible contingent consideration has been valued at $8,850 based on the share price of the Company's common shares on December 31, 2013 ($0.35 per share) less a discount to reflect that the shares are not freely tradeable.

During the year ended December 31, 2013, the Company issued 168,917 common shares from treasury and released 129,383 common shares from escrow to the vendors of physiotherapy clinics as consideration for the earn-out agreements for these acquisitions.

On November 2, 2013, the Company issued 714,286 (December 31, 2012 - 714,284) common shares and 98,918 warrants to the vendors of Community Advantage Rehabilitation Inc. ("CAR") as the consideration of the third and final year of their earn-out agreement. At December 31, 2013, the Company has a contingent liability recorded associated with contingent payment terms tied to the Company's share price included in this agreement.

On March 15, 2013, the Company released from escrow 34,134 common shares to the vendors of LSC as consideration for the first year of the earn-out agreement for this acquisition.

On February 12, 2013, the Company released from escrow 2,810,094 common shares and 5,000,000 share purchase warrants to the vendors of Classic Care Pharmacy Corporation ("Classic Care").

(in thousands of Canadian dollars)

7. Contingent Consideration - continued

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

	Classic Care $	Motion Specialties $	SmartShape $	Other $	Total $
Balance at December 31, 2012:	2,618	11,980	—	2,371	**16,969**
Fair value at date of acquisition	—	—	987	—	**987**
Change in fair value during the year	(348)	(11,980)	19	(253)	**(12,562)**
Contingent consideration settled in shares	(1,602)	—	—	(431)	**(2,033)**
Contingent consideration settled in warrants	(668)	—	—	(6)	**(674)**
Contingent consideration settled in cash	—	—	—	(1,063)	**(1,063)**
Total contingent consideration	**—**	**—**	**1,006**	**618**	**1,624**
Less: current portion	**—**	**—**	**—**	**217**	**217**
Non-current portion at December 31, 2013	**—**	**—**	**1,006**	**401**	**1,407**

The above table includes contingent consideration payable in cash, subject to achieving performance milestones, in the amount of $70 at December 31, 2013 all of which may be payable within one year. In addition, the above table includes accrued liabilities of $1,047 for contingent payment terms which may be payable if the Company's share price does not reach predetermined levels as specified in certain purchase and sale agreements.

(in thousands of Canadian dollars)

8. Property and Equipment

	Office furniture, fixtures and equipment $	Computer equipment $	Medical and physiotherapy equipment $	Leasehold improvements $	Total $
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**
Year ended December 31, 2013					
Opening net carrying value	3,618	2,889	7,840	10,655	25,002
Additions	1,144	1,739	2,319	3,518	8,720
Finance leases	40	—	—	—	40
Acquisition	—	—	53	—	53
Disposals	(3)	—	—	—	(3)
Depreciation	(1,153)	(1,117)	(2,453)	(2,754)	(7,477)
Closing net carrying value	**3,646**	**3,511**	**7,759**	**11,419**	**26,335**
As at December 31, 2013					
Cost	8,299	6,702	13,649	18,620	47,270
Accumulated depreciation	(4,653)	(3,191)	(5,890)	(7,201)	(20,935)
Net carrying value	**3,646**	**3,511**	**7,759**	**11,419**	**26,335**

Included in property and equipment additions for the year ended December 31, 2013 are $636 of non-cash leasehold improvements.

(in thousands of Canadian dollars)

9. Goodwill and Intangible Assets

	Goodwill $	Licenses $	Contracts $	Non-compete contracts $	Computer software $	Franchise rights $	Customer & physician relationships $	Trademark $	Total $
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**
Year ended December 31, 2013									
Opening net carrying value	213,345	7,805	13,010	1,486	4,458	6,331	69,127	38,158	353,720
Additions	—	—	—	—	1,258	—	—	—	1,258
Acquisitions	2,614	—	—	—	—	—	—	—	2,614
Purchase price allocation adjustment	(457)	—	—	—	—	—	356	—	(101)
Amortization charge	—	(713)	(94)	(534)	(1,335)	(344)	(18,984)	(5,103)	(27,107)
Impairment	(44,500)		(12,625)					(2,382)	(59,507)
Closing net carrying value	**171,002**	**7,092**	**291**	**952**	**4,381**	**5,987**	**50,499**	**30,673**	**270,877**
As at December 31, 2013									
Cost	286,190	9,156	14,664	2,455	9,665	6,860	96,161	53,325	478,476
Accumulated amortization and impairment	(115,188)	(2,064)	(14,373)	(1,503)	(5,284)	(873)	(45,662)	(22,652)	(207,599)
Net carrying value	**171,002**	**7,092**	**291**	**952**	**4,381**	**5,987**	**50,499**	**30,673**	**270,877**

As at December 31, 2012 the Company recorded an impairment of $27,421, of which $27,321 was related to goodwill and trademarks and $100 related to the outstanding loan made to PrevCan Inc. by the Company.

The Company has $1,947 of indefinite life intangible assets at December 31, 2013 (December 31, 2012 - $14,572). The Company has $840 of intangible assets under development related to computer software (December 31, 2012 - $nil) .

9. Goodwill and Intangible Assets - continued

During the three month period ended September 30, 2013, the Company identified an indicator of impairment with regards to its OHIP billing privileges and trademark related to the Company's Physiotherapy - Senior's Wellness CGU. Effective August 22, 2013, the OHIP billing privileges ceased as a result of an industry-wide change in the delivery of physiotherapy for seniors in the province of Ontario. These billing privileges previously had an indefinite useful life. As a result, the Company has recorded non-cash impairments of $12,625 related to these licenses, $2,382 related to the trademarks associated with the delivery of these services, and $15,000 of goodwill. This goodwill impairment charge was valued as part of the Company annual impairment test of goodwill and indefinite life intangible assets which has been completed as at December 31, 2013.

The Company measured its recoverable amount based on the fair value of the CGU less its cost of disposal. The Company used a capitalized cash flow approach for most of its CGUs 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 maintainable discretionary after-tax cash flows from operations are based on historical results, the Company's projected results to December 31, 2013 and the Company's 2014 operating budget.

The Company used a discounted cash flow approach for the Physiotherapy - Seniors Wellness, Retail and Home Medical and Surgical - Eastern Canada CGUs. A discounted cash flow approach was used for these CGUs as they are expected to reach their maintainable discretionary after-tax cash flows from operations in future years after restructuring and process re-engineering to more optimal levels. This approach utilizes many of the same assumptions as the capitalized cash flow approach. The discounted cash flow approach is, however, based on the after-tax cash flows from operations determined based on projections for the year ending December 31, 2013, the 2014 operating budget, an estimate of the 2015 operating budget and a terminal operating budget.

The Company identified eight CGUs as part of its goodwill impairment testing. The Company allocated indefinite life intangible assets of $1,026 to the Surgical - Eastern Canada CGU, $630 to the Pharmacy CGU and $291 to the Physiotherapy - Clinics CGU.

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.

(in thousands of Canadian dollars)

9. 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 26.5% . 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 recoverable amount of the Company's CGUs are considered to be level 3 fair value calculations as described in note 18. The assumptions used by the Company in its goodwill impairment testing are as follows:

CGU	Goodwill as at August 31 $	Terminal Growth Rate	Discount Rate
Physiotherapy – Clinics	67,172	2%	9.5%
Physiotherapy - Seniors Wellness	48,269	2%	11.5%
Assessments	32,457	2%	10.0%
Retail and Home Medical	19,026	2%	12.0%
Pharmacy	30,802	2%	9.5%
Surgical - Western Canada	10,184	2%	10.0%
Surgical - Eastern Canada	3,930	2%	10.5%
Orthotics	1,048	2%	10.5%
	212,888	**2.0%**	**10.2%**

At August 31, 2013, the fair value for each CGU, other than the Physiotherapy - Seniors Wellness, Retail and Home Medical, and Surgical - Eastern Canada were in excess of their carrying value. The impairments for the Physiotherapy - Seniors Wellness CGU of $15,000, the Retail and Home Medical CGU of $10,000 and the Surgical - Eastern Canada CGU of $1,000 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 in addition to financial performance which has been lower than anticipated due to revenue initiatives with a longer sales cycle and process re-engineering initiatives to drive margin growth which are not expected to be completed until 2014. The impairment of the Surgical - Eastern Canada CGU was a result of lower than anticipated financial performance due to the restructuring of this business.

In the three month period ended December 31, 2013, subsequent to the completion of its annual goodwill impairment test, the Company identified additional triggering events. The Company's Physiotherapy - Seniors Wellness CGU was impacted by further reduced profitability due to a perceived conflict of interest raised by the government of Ontario. The Company used the same methodology and same assumptions used for the Physiotherapy - Seniors Wellness CGU as part of its annual goodwill impairment test to complete its goodwill impairment test for this CGU at December 31, 2013, except for revised budget projections, the incorporation of a 2016 projection and the use of a terminal operating budget commencing in 2017. At December 31, 2013, the carrying value of the Physiotherapy - Seniors Wellness CGU was in excess of its fair value by $14,000 which resulted in the Company recognizing an impairment.

The Company also identified a triggering event in the Retail and Home Medical CGU. As a result of the Company's annual physical inventory count and valuation at December 31, 2013 for this CGU, there was an adjustment of $7,780 which reduced inventory and increased cost of goods sold. The Company used the same methodology and same assumptions used for the Retail and Home Medical CGU as part of its annual goodwill impairment test to complete its goodwill impairment test for this CGU at December 31, 2013, except for revised budget projections, the incorporation of a 2016 projection, the use of a terminal operating budget commencing in 2017 and revised inventory turnover targets in future periods. At December 31, 2013, the carrying value of the Retail and Home Medical CGU was in excess of its fair value by $4,500 which resulted in the Company recognizing an impairment.

9. Goodwill and Intangible Assets - continued

The Company has completed a reconciliation of the calculated fair value of its equity based on the recoverable amounts determined for each CGU to its market capitalization as at December 31, 2013. Based on this reconciliation, the Company believes that the differential between the calculated fair value of its equity and its market capitalization is within an acceptable range.

The Company has assessed whether a reasonable change in assumptions would cause the recoverable amount for any of its CGUs for which no impairment charge was recorded to be less than its carrying value. The Company has defined a reasonable change in assumptions to be a 1% increase in the discount rate. The Company has found that a 1% increase in the discount rate would not result in the recoverable amount for any of these CGUs to become less than their carrying value.

For the year ended December 31, 2012, the fair value for each CGU, other than the Retail and Home Medical, Surgical - Eastern Canada, 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 - Eastern Canada 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 CGU in order to confirm the conclusion reached.

For the year ended December 31, 2012, the Company recorded impairments related to its BlueWater trademark as this trademark was no longer in use by the Company. The impairment of the $1,333 represented the remaining unamortized value of the trademark.

For the year ended December 31, 2012 the Company identified the intangible assets associated with its acquisitions of Classic Care and Motion Specialties, including trademarks. As part of the identification of the intangible assets, the trademarks for Classic Care and Motion Specialties were recorded at their fair market value. However, as the Company plans to rebrand these operations over a period of time which is shorter that the estimated useful lives, the Company recorded impairments of $3,100 for the Classic Care trademark and $2,200 for the Motion Specialties trademark. The remaining balance at December 31, 2012 reflected the estimated fair value of these trademarks based on the expected life over which the Company intends to use them .

The Company did not reverse any impairment losses for definite life intangible assets for the years ended December 31, 2013 and 2012.

(in thousands of Canadian dollars)

10. Borrowings

Borrowings consist of the following:

	December 31, 2013	December 31, 2012
	$	$
Term Loan	**—**	127,500
Second lien senior secured notes	**200,000**	—
Loan arrangement costs[4]	**(5,153)**	(5,202)
Revolving Facility	**23,000**	45,477
Convertible debt	**53,388**	53,388
Unaccreted discount on convertible debt	**(16,490)**	(20,011)
Fair value of redemption features[5]	**—**	(1,540)
Related party convertible loan (note 16)	**5,000**	5,000
Unaccreted discount on related party convertible loan (note 16)	**(2,174)**	(424)
Total borrowings	**257,571**	204,188
Less: current portion of borrowings	**—**	19,576
Total non-current borrowings	**257,571**	184,612

[4] Included in loan arrangement costs at December 31, 2012 were financing fees associated which GHIS as described in note16 which were being amortized over the life of the Term Loan.

[5] Fair value of redemption features are embedded derivatives in the private placement and second lien senior secured notes which is netted against the debt amount for presentation purposes.

On April 18, 2013, the Company completed a $200,000 public offering of second lien senior secured notes which bear interest at 8.625% with the principal due on April 18, 2018. There are no principal repayments required for the second lien senior secured notes prior to maturity. The second lien senior notes contain certain redemption features which are at the option of the Company commencing on April 18, 2016. These redemption features are considered embedded derivatives that have been valued at $nil at inception and at December 31, 2013. The second lien senior secured notes include certain restrictions on the Company's ability to take on additional indebtedness based on its financial performance. The Company used the proceeds from this offering to repay its Term Loan and Revolving Facility and repay $10,000 of preferred partnership units.

On April 18, 2013, the Company entered into an amended and restated credit agreement to establish a new Revolving Facility with a maximum borrowing limit of $50,000 and matures on June 9, 2015. The new Revolving Facility bears interest on a sliding scale from prime plus 1.5% to prime plus 3.75% for principal borrowed and a range of 0.63% to 1.19% for standby fees for amounts not borrowed. This new Revolving Facility includes quarterly financial performance measurement covenants. The Company was in compliance with these financial performance covenants at December 31, 2013, including a $7,780 adjustment arising from the Company's year end physical inventory count and valuation which was treated as an addback in the covenant calculations as permitted in the current Credit Facility agreement and acknowledged by the Company's senior lenders. On March 27, 2014, the Company and its senior lenders amended the Revolving Facility, which included amendments to certain financial performance covenants for 2014 and beyond.

On April 18, 2013, the Company utilized $12,500 of the new Revolving Facility to repay preferred partnership units. On June 9, 2013, the Company utilized another $7,500 of the new Revolving Facility to repay the preferred partnership units. As at December 31, 2013, the Company had borrowed $23,000 from the Revolving Facility.

Substantially all of the Company's assets are pledged as security for the above borrowings with first security provided to the lenders of the Revolving Credit Facility, followed by holders of the second lien senior secured notes.

(in thousands of Canadian dollars)

10. Borrowings - continued

The Company's convertible debt as at December 31, 2013 and December 31, 2012, excluding related party convertible debt, consists of the following, of which the interest and principal can be settled in common shares at the option of the Company:

Debt instrument	Principal $	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.

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 note 17.

(in thousands of Canadian dollars)

10. Borrowings - continued

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 17.

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

	Years ended December 31,	
	2013 **$**	2012 $
Unaccreted discount on convertible borrowings, beginning of year	**20,011**	3,761
Additional discounts from convertible debt	**—**	18,179
Accretion expense	**(3,521)**	(1,929)
Unaccreted discount on convertible borrowings, end of year	**16,490**	20,011

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 subsequent changes in the fair value of these swaps have been included as part of the statement of income. The accumulated other income balance related to these interest rate swaps has been 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 had not been designated as an effective hedge. On April 18, 2013, the Company settled the interest rate swaps with face values of $75,000 and $13,924 for $966. At December 31, 2013, the fixed interest rate on the Company's remaining $25,000 interest rate swap was approximately 5.12% and the floating interest rate was based on the three month Canadian Bankers' Acceptance rate. The mark-to-market loss on interest rate swaps not designated as a hedge was $263 for the year ended December 31, 2013 (December 31, 2012 - gain of $675). At December 31, 2013, the Company recorded a liability of $120 (December 31, 2012 - $823) for this derivative financial instrument.

The continuity of the redemption features are as follows:

	Years ended December 31,	
	2013 **$**	2012 $
Redemption feature, beginning of year	**(1,540)**	—
Redemption feature from convertible debt	**—**	(3,140)
Change in fair value of redemption features	**1,540**	1,600
Redemption features, end of year	**—**	(1,540)

(in thousands of Canadian dollars)

10. Borrowings - continued

The change in fair value of derivative financial instruments for the years ended December 31, 2013 and 2012 are as follows:

	Years ended December 31,	
	2013 **$**	2012 $
Change in fair value of interest rate swaps	**263**	(675)
Change in fair value of redemption feature	**1,540**	1,600
Change in fair value of derivative liability portion of convertible borrowings	**(6,689)**	(2,872)
	(4,886)	(1,947)

The continuity of the derivative financial instruments is as follows:

	Years ended December 31,	
	2013 **$**	2012 $
Derivative financial instruments, beginning of year	**823**	1,812
Change in fair value of interest rate swaps	**263**	(675)
Settlement of interest rate swaps	**(966)**	—
Change in fair value of interest rate swaps designated as hedges	**—**	(314)
Derivative financial instruments, end of year	**120**	823

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

	Years ended December 31,	
	2013 **$**	2012 $
Derivative liability portion of convertible borrowings, beginning of year	**8,409**	1,603
Directed share program[6]	**—**	432
Public debt[6]	**—**	9,246
Change in fair value of derivative liability portion of convertible borrowings	**(6,689)**	(2,872)
Derivative liability portion of convertible borrowings, end of year	**1,720**	8,409

[6] Balances are net of transaction costs.

The fair value of the derivative liability portion of convertible borrowings is based on a modified Black-Scholes valuation method. The key valuation assumptions at December 31, 2013 are as follows:

	Directed share program	**Public debt**	**Private placement redemption feature**
Expected volatility	55.81%	55.81%	55.81%
Risk-free interest rate	1.67%	1.94%	1.49%
Credit spread	30.35%	30.35%	30.35%

(in thousands of Canadian dollars)

11. Preferred Partnership Units

This balance of $35,500 represents preferred partnership units issued by LifeMark Health Limited Partnership ("Lifemark") to Alaris Income Growth Fund Partnership ("Alaris"). There were $65,500 of units that were assumed on the acquisition of LifeMark on June 9, 2011. On April 18, 2013, the Company repaid $22,500 of the preferred partnership units and on June 9, 2013 repaid $7,500 of the preferred partnership units as described in note 10. Alaris is entitled to annual distributions of $3,957 for the annual period commencing July 1, 2013 with annual increases of 4% at the end of each year thereafter. The principal amount grows at 4% annually from the third anniversary. The Company is not required to redeem the preferred partnership units until 2084. The Company intends on repaying the preferred partnership units over the period to June 9, 2017. The Company has presented this amount as a long-term liability as it is the Company's intention to redeem the preferred partnership units, subject to agreements with senior lenders and the availability of financing at a lower rate. The Company previously intended to repay the preferred partnership units by their third anniversary however revised this intention as a result of current market conditions for financing at a lower rate.

12. Finance Leases

The Company has entered into lease agreements to finance certain medical and physiotherapy equipment used in operations. Included within property and equipment, are the following amounts:

	December 31, 2013	December 31, 2012
	$	$
Cost - capitalized finance leases	**3,283**	3,243
Accumulated depreciation	**2,957**	1,884
Finance leased assets	**326**	1,359

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, 2013	December 31, 2012
	$	$
No later than 1 year	**121**	876
Later than 1 year but no later than 5 years	**127**	240
Future finance charges on finance lease	**17**	51
Minimum lease payments	**265**	1,167

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

	December 31, 2013	December 31, 2012
	$	$
No later than 1 year	**181**	911
Later than 1 year but no later than 5 years	**84**	256
Present value of finance lease liabilities	**265**	1,167

(in thousands of Canadian dollars)

13. 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, 2012 - 26.5%) to income taxes as follows:

	December 31, 2013	**December 31, 2012**
	$	**$**
Loss before income taxes	**(91,544)**	(7,929)
Expected income tax recovery based on statutory tax rate	**(24,259)**	(2,101)
Impact from non-deductible items	**1,892**	4,049
Impact from unrecognized deferred tax asset	**10,000**	3,500
Permanent differences relating to contingent consideration	**(3,329)**	(13,558)
Permanent differences relating to impairments	**9,265**	5,482
Recognition of certain tax differences on business combination intangibles	**3,935**	—
Accounting to tax return adjustments	**1,589**	1,771
Effect of future tax rate changes	**213**	16
Income tax recovery	**(694)**	(841)
Current	**7,101**	3,973
Deferred	**(7,795)**	(4,814)

Permanent differences in the years ended December 31, 2013 and 2012 arose as a result of impairment charges and contingent consideration 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 consolidated statement of financial position and on a total gross basis in the notes to the financial statements.

The components of deferred income tax assets are as follows:

	December 31, 2013	December 31, 2012
	$	$
Property and equipment	**992**	—
Non-capital losses carried forward	**5,354**	8,305
Investment tax credits	**—**	37
Financing costs	**1,418**	1,094
Accrued liabilities deductible when paid	**413**	504
Deferred income tax assets	**8,177**	9,940

(in thousands of Canadian dollars)

13. Income Taxes - continued

The components of deferred income tax liabilities are as follows:

	December 31, 2013	December 31, 2012
	$	$
Property and equipment	—	1,105
Eligible capital expenditures	**5,274**	14,561
Convertible debt	**4,046**	2,921
Deferred income tax liabilities	**9,320**	18,587
Net deferred income tax liabilities	**(1,143)**	(8,647)

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

	December 31, 2013	December 31, 2012
	$	$
Deferred income tax asset	**9,140**	18,285
Deferred income tax liability	**10,283**	26,932
Net deferred income tax asset (liabilities)	**(1,143)**	(8,647)

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

	December 31, 2013	**December 31, 2012**
	$	**$**
Net deferred tax (liability) asset, beginning of year	**(8,647)**	(486)
Recognized in statement of income and comprehensive income	**7,795**	4,814
Acquired in business combinations	—	(11,160)
Other	**(291)**	(1,815)
Net deferred tax liability, end of year	**(1,143)**	(8,647)

At December 31, 2013, the Company recorded $802 (December 31, 2012 - $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 $641 (December 31, 2012 - $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.

13. Income Taxes - continued

As at December 31, 2013 and December 31, 2012, the Company had $70,769 and $45,354, respectively of gross tax loss carryforwards, which will expire between 2014 and 2033. 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 $13,500 which the Company has not recorded at December 31, 2013 (December 31, 2012 - $3,500) in respect of $50,800 (December 31, 2012 - $13,200) of non-capital losses carried forward. At December 31, 2013 and December 31, 2012, deferred tax assets of $40 and $80 were not recognized for capital losses for which the Company does not expect to realize the related benefit.

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 $229 (December 31, 2012 - $1,598) are expected to be recovered within twelve months and $7,948 (December 31, 2012 - $8,342) 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 $9,320 (December 31, 2012 - $18,587) are expected to be incurred after more than twelve months.

(in thousands of Canadian dollars)

14. Interest Expense

Interest expense for the years ended December 31, 2013 and 2012 is comprised of the following:

	For the years ended December 31,	
	2013 **$**	2012 $
Interest on long-term loan, revolving facilities and second lien senior secured notes	**16,946**	11,324
Amortization of loan arrangement fees	**6,432**	1,771
Interest on related party amounts	**644**	781
Accretion of related party loan discounts	**450**	360
Interest on capital leases	**103**	98
Amortization of deferred gain on interest rate swap	**(173)**	—
Interest on convertible debt	**3,294**	1,232
Accretion on convertible debt	**3,521**	1,929
Interest expense before distributions for preferred partnership units	**31,217**	17,495
Distributions for preferred partnership units	**4,988**	6,885
Total interest expense	**36,205**	24,380
Interest income	**(11)**	(30)
Net interest expense	**36,194**	24,350

15. Trade Payables and Other Amounts

Trade and other payables at December 31, 2013 and December 31, 2012 are comprised of the following:

	December 31, 2013	December 31, 2012
	$	$
Trade payables	**37,167**	33,243
Accrued liabilities	**17,735**	21,839
Deferred revenue	**1,170**	1,496
Amounts payable to GHIS (note 16)	**4,228**	4,976
Restructuring costs (note 6)	**2,299**	4,632
	62,599	66,186

16. 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, who own 40,901,287 shares or approximately 27% of the issued and outstanding common shares of the Company as at December 31, 2013. This ownership percentage disclosed assumes the issuance of 19,632,470 escrowed and restricted shares in the total common shares considered to be outstanding.

On March 21, 2013, GHIS and the Company negotiated an amended consulting agreement which eliminated the completion fees, removed the consulting fees for the year ended December 31, 2013, and amended the consulting fees to $75 per month from January 2014 to the completion of the agreement in June 2015. The Company issued 4,802,311 common shares to GHIS on July 3, 2013 which is 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. These common shares are subject to a one year hold period unless the Company's Board of Directors approves an earlier release date. The Company's shareholders approved the amended consulting agreement on May 9, 2013. The Company has recorded stock based compensation expense of $2,785 for the year ended December 31, 2013 representing the fair value of the shares approved on May 9, 2013. On March 21, 2013, GHIS waived their consulting fees for the fourth quarter of 2012.

For the year ended December 31, 2013, the Company incurred $103 (December 31, 2012 - $184) in GHIS travel and related expenses, $344 (December 31, 2012 - $781) in interest on related party amounts, $nil (December 31, 2012 - $900) in advisory fees and $nil (December 31, 2012 - $192) for completion fees.

Included in trade payables and other amounts at December 31, 2013 and December 31, 2012 are $4,228 and $4,976, respectively, due to GHIS; and $25 and $76, 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 subject to the Credit Agreement between the Company and its senior lenders. Any outstanding consulting fees which are unpaid bear interest at 8% per annum.

Related party loans

The Company had a promissory note with Jamon for $5,000 that bore interest at 6% with a conversion feature of one share per one dollar of principal amount which was 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 expired on November 9, 2013. On November 5, 2013, the Company renegotiated this promissory note such that its maturity date will be April 30, 2018 and issued 1,000,000 new warrants to purchase common shares which will expire on April 30, 2018. The conversion price for the note and the strike price for the warrants is $0.46. The conversion of the note is at the option of the holder.

(in thousands of Canadian dollars)

16. Related Party Transactions and Balances - continued

The Company has ascribed the following values to the renegotiated related party loan:

Debt	$2,800
Conversion Feature	$1,464
Deferred Tax Liability	$583
Warrants	$153
Total	$5,000

The fair value of the warrants has been determined using the Black-Scholes pricing model and the equity portion of the convertible borrowings have also been valued using the modified Black Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	56.4%
Risk-free interest rate	2.06%
Credit spread	21%
Share price at date of issue	$0.37

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 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 17.

On September 3, 2012, the Company issued 1,000,000 restricted shares to the Company's CEO which vest over a four year period. Effective January 1, 2013, 200,000 of these restricted shares became freely tradeable. Effective January 1, 2014 an additional 100,000 of these shares became freely tradeable.

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,	
	2013 **$**	2012 $
Salaries and benefits	**1,847**	1,334
Share-based payments	**94**	2,058
Other long-term benefits	**5**	3
Director fees	**376**	376
	2,322	3,771

(in thousands of Canadian dollars)

16. Related Party Transactions and Balances - continued

On March 28, 2013, the Company amended the Executive Chairman's director fee to $150 for the year ended December 31, 2012 and to waive the fee for all future periods. All other directors employed by GHIS do not receive any director's fees. For the year ended December 31, 2012, the Company incurred restructuring costs of $1,000 and reversed share-based compensation expense of $337 related to the Company's former CEO who is no longer with the Company.

17. 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)	**2013**		2012	
Common shares	**Shares**	**Stated value $**	Shares	Stated value $
Balance, beginning of year	**121,389,445**	**92,201**	98,220,254	62,525
Issuance of shares as compensation	**200,000**	**289**	782,227	61
Issuance of shares	**—**	**—**	450,000	482
Shares released from escrow or issued from treasury for contingent consideration[7]	**3,856,814**	**2,033**	17,788,669	21,930
Shares released from escrow for compensation[8]	**1,500,000**	**915**	—	—
Shares issued to GHIS for an amended consulting agreement	**4,802,311**	**2,785**	—	—
Cancellation of shares	**—**	**—**	(600,000)	—
Issued on acquisitions	**—**	**—**	3,597,632	6,140
Issued through public financing	**—**	**—**	463,163	581
Stock options and restricted share units exercised	**1,614,724**	**858**	687,500	482
Balance, end of year	**133,363,294**	**99,081**	121,389,445	92,201

[7] Consists of 2,973,611 common shares issued from escrow and 883,203 common shares issued from treasury for the year ended December 31, 2013 and 17,002,956 common shares issued from escrow and 785,713 common shares issued from treasury for the year ended December 31, 2012.
[8] As a result of employment arrangements with the vendor of Performance Medical Group, the Company released 1,500,000 escrowed shares on February 5, 2013 to the vendor of Performance Medical Group.

(in thousands of Canadian dollars)

17. Shareholders' Equity and Earnings per Share - continued

Common shares related to contingent consideration held in escrow and restricted shares at December 31, 2013 are as follows:

Entity	**Escrowed and restricted shares**
BlueWater	6,153,846
London Scoping Centres	640,866
Performance Medical Group	1,500,000
Motion Specialties	9,004,641
SmartShape Weight Loss Centres	1,075,000
Other	458,117
Restricted compensation shares	800,000
Total	**19,632,470**

The continuity of restricted and escrowed shares for the year ended December 31, 2013 is as follows:

Escrowed and restricted shares	
Balance at beginning of the year	23,231,081
Additional escrowed shares	1,075,000
Released escrowed shares	(4,473,611)
Released restricted shares	(200,000)
Total	**19,632,470**

The total common shares in aggregate at December 31, 2013 are:

Type of common shares	
Freely tradeable	133,363,294
Escrowed and restricted	19,632,470
Total	**152,995,764**

Common shares and warrants issued or released during the year ended December 31, 2013 related to contingent consideration on acquisitions are disclosed in note 7.

On September 3, 2012, the Company issued 1,000,000 common shares to the CEO of the Company. These shares are held by the Company and 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. Effective January 1, 2013, 200,000 of these restricted shares became freely tradeable. 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.

(in thousands of Canadian dollars)

17. Shareholders' Equity and Earnings per Share - continued

On February 28, 2012, the Company issued 10,127,956 of the Surgical Spaces Inc ("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 tradeable shares and then issued him 450,000 common shares of the Company.

The first year earn-out periods for Blue Water Diagnostics Ltd. ("BWG"), including LSC, ended on August 31, 2012. The BWG operations did not achieve their specified performance targets and as such no first year escrowed shares will be released to the vendors of BWG. The vendors of BWG are not expected to earn any escrowed shares in the second and third years of the earn-out period. London Scoping Centre achieved approximately 95% of its first year performance targets and on March 15, 2013, the Company released 34,134 common shares to the vendors of London Scoping Centre as consideration for the first year of the earn-out agreements for this acquisition. The second year earn-out periods for BWG, including LSC, ended on August 31, 2013. The BWG operations did not achieve their specified performance targets and as such no second year escrowed shares will be released to the vendors of BWG.

The earn-out periods for Performance ended on November 30, 2013 and 2012. Performance did not achieve their specified performance targets, for either year of their two year earnout period.

As 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.

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 the 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)

17. 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 tradeable 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 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)

17. 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

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

On November 7, 2013, the Company issued 770,000 stock options to management and employees. Of the stock option issued, 270,000 were issued at a strike price of $0.39, 250,000 were issued at a strike price of $1.55 and 250,000 were issued at a strike price of $0.48. The respective fair value of the options are $0.20 per option, $0.08 per option and $0.18 per option using the Black-Scholes pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	66% to 78%
Risk-free interest rate	1.42%
Expected life in years	3.8
Share price at date of issue	$0.39
Forfeiture rate	10%

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%

(in thousands of Canadian dollars)

17. Shareholders' Equity and Earnings per Share - continued

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

Years ended December 31,	**2013**		2012	
Common share options	**Options**	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of year	**11,224,500**	**$1.29**	11,355,500	$1.32
Options granted	**770,000**	**0.80**	1,925,000	0.95
Options exercised	**(700,000)**	**0.35**	(687,500)	0.45
Options expired	**(275,000)**	**0.77**	—	—
Options cancelled /forfeited	**(2,213,500)**	**1.19**	(1,368,500)	1.48
Balance, end of period	**8,806,000**	**$1.37**	11,224,500	$1.29
Exercisable, end of year	**4,439,250**	**$1.37**	4,729,875	$1.06

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding as at December 31, 2013 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**
$0.31 - $0.50	645,000	0.41	4.0	125,000	0.31
$0.51 - $1.00	2,215,000	0.86	2.7	916,250	0.80
$1.01 - $1.50	1,100,000	1.03	0.9	1,100,000	1.03
$1.51 - $1.88	4,846,000	1.80	2.8	2,298,000	1.81
	8,806,000	**1.37**	**2.6**	**4,439,250**	**1.37**

On August 30, 2013, the Company issued 100,000 restricted share units to management and employees which entitles the holders to 100,000 common shares of the Company over a three year vesting period. These restricted share units have been fair-valued based on the quoted market price on the date of issuance of $0.44 per share.

On June 3, 2013, the Company issued 1,718,555 restricted share units to management and employees which entitles the holders to 1,718,555 common shares of the Company. Of the restricted share units issued, 713,054 vest immediately, 543,841 vest in one year, 230,830 vest in two years and 230,830 vest in three years. These restricted share units have been fair-valued based on the quoted market price on the date of issuance of $0.49 per share.

On May 28, 2013, the Company issued 100,000 restricted share units to management and employees which entitles the holders to 100,000 common shares of the Company over a three year vesting period. These restricted share units have been fair-valued based on the quoted market price on the date of issuance of $0.53 per share.

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)

17. Shareholders' Equity and Earnings per Share - continued

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

Years ended December 31,	**2013**		2012	
Restricted share units	**Units**	**Weighted average exercise price**	Units	Weighted average exercise price
Balance, beginning of year	**610,000**	**0.75**	—	—
Restricted share units granted	**1,918,555**	**0.49**	615,000	0.75
Restricted share units exercised	**(914,724)**	**0.55**	—	—
Restricted share units forfeited	**(30,283)**	**0.53**	(5,000)	0.75
Balance, end of year	**1,583,548**	**0.56**	610,000	0.75

The weighted-average remaining contractual life of restricted share units outstanding as at December 31, 2013 is 1.4 years.

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

(in thousands of Canadian dollars)

17. Shareholders' Equity and Earnings per Share - continued

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

Years ended December 31,	**2013**		2012	
Share purchase warrants	**Warrants**	**Weighted average exercise price**	Warrants	Weighted average exercise price
Balance, beginning of year	**28,576,590**	**$0.55**	23,281,200	$0.45
Warrants granted	**6,098,920**	**1.55**	5,295,390	0.96
Warrants expired	**(1,498,200)**	**1.09**	—	—
Balance, end of period	**33,177,310**	**$0.71**	28,576,590	$0.55
Exercisable, end of year	**31,431,147**	**$0.65**	26,830,427	$0.47

The weighted-average remaining contractual life and weighted-average exercise price of warrants outstanding as at December 31, 2013 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 - $1.78	**33,177,310**	**$0.71**	1.2	**31,431,147**	**$0.65**

Loss per share

Loss per share has been calculated on the basis of net loss for the period divided by the weighted average number of common shares outstanding during the period. Diluted loss 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 unvested shares, share options, warrants and convertible debt outstanding during the period. Loss 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, restricted share units, warrants and conversion features that were issued at prices lower than the market price of the Company's common shares at the respective period-ends.

(in thousands of Canadian dollars)

17. Shareholders’ Equity and Earnings per Share - continued

The following table illustrates the basic and diluted weighted average shares outstanding for the years ended December 31, 2013 and 2012.

	For the years ended December 31,	
	2013	2012
Basic weighted average shares outstanding	**129,031,987**	114,139,996
Dilutive effect of unvested shares	**19,640**	—
Dilutive effect of share options	**150,168**	1,091,139
Dilutive effect of warrants	**6,609,426**	13,661,317
Dilutive effect of convertible debt	**49,172,347**	25,177,932
Diluted shares outstanding	**184,983,568**	154,070,384

Included in the basic weighted average shares outstanding are 4,802,311 common shares issued to GHIS which are currently subject to a hold period but are not tied to any performance conditions.

18. Financial Instruments and Fair Value Measurements

At December 31, 2013, the Company's financial instruments consisted of cash and cash equivalents, trade and other receivables, loans receivable, trade and other payables, contingent consideration, bank indebtedness, finance lease liabilities, borrowings, preferred partnership units, related party loans, convertible loans, derivative liabilities and redemption features 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 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 and derivative liabilities associated with convertible loans.

(in thousands of Canadian dollars)

18. Financial Instruments and Fair Value Measurements - continued

Recurring fair value measurements at December 31, 2013 are as follows:

	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Contingent consideration	—	—	1,624	**1,624**
Derivative financial instruments	—	120	1,720	**1,840**
	—	**120**	**3,344**	**3,464**

There were no non-recurring fair value measurements at December 31, 2013. There were no transfers between levels 1 and 2 during the year ended December 31, 2013.

The level 2 fair value of derivative financial instruments relates to interest rate swap agreements and are based on the value of the swap agreement as compared to current market rates.

Details regarding level 3 fair value measurements for contingent consideration can be found in note 7 and for the derivative financial instruments related to derivative liability component of convertible debt in note 10.

There were no changes in the valuation techniques used during the year ended December 31, 2013.

The carrying value of financial assets and financial liabilities that are measured at cost or amortized cost, which is an approximation of the fair value for the following financial assets and financial liabilities:

	December 31, 2013 $	December 31, 2012 $
Financial assets measured at cost or amortized cost		
Trade and other receivables	**58,531**	58,325
Loans receivable	**184**	444
Financial liabilities measured at cost or amortized cost		
Bank indebtedness	**2,625**	—
Trade payables and other amounts	**62,599**	66,186
Finance lease liability	**265**	1,167
Convertible borrowings	**39,724**	36,413
Term Loan and Revolving Facility	**23,000**	167,775
Preferred partnership units	**35,500**	65,500

The fair value of the second lien senior secured notes at December 31, 2013 is $188,126 and has a carrying value of $194,847. The fair value of the second lien senior secured notes was determined by using a discounted cash flow method with a risk-adjusted discount rate of 1.94%.

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.

(in thousands of Canadian dollars)

18. Financial Instruments and Fair Value Measurements - continued

Trade and other receivables aging was as follows:

	December 31, 2013	December 31, 2012
	$	$
0 - 30 days	**35,726**	34,948
31-60 days	**9,901**	10,652
61-90 days	**5,606**	3,750
Over 90 days	**7,298**	8,975
	58,531	58,325

Included in accounts receivable at December 31, 2013 is $14,538 (December 31, 2012 - $15,475) of government funding of amounts receivable for product sales and accrued receivables for services for which the services or product sales have been rendered but not yet billed at year end.

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

	December 31, 2013	December 31, 2012
	$	$
Provision, beginning of year	**3,949**	1,090
Opening provision balance from acquisitions	**—**	1,932
Increases to the valuation allowance	**424**	927
Provision, end of year	**4,373**	3,949

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, 2013:

	Total	1 year	2-3 years	4-5 years	Thereafter
	$	$	$	$	$
Trade payables and other amounts	**62,599**	62,599	—	—	—
Second lien senior secured notes	**200,000**	—	—	200,000	—
Revolving Facility	**23,000**	—	23,000	—	—
Finance leases	**265**	181	84	—	—
Interest payments on borrowings	**96,670**	21,286	40,136	35,248	—
Operating leases	**71,548**	14,218	24,778	16,890	15,662
	454,082	98,284	87,998	252,138	15,662
Preferred partnership units[1]	**35,500**	—	25,000	10,500	—
	489,582	98,284	112,998	262,638	15,662

[1]The Company does not have an obligation to redeem the preferred partnership units until 2084. The Company has presented these amounts based upon the Company's intentions to repay the preferred partnership units.

18. Financial Instruments and Fair Value Measurements - continued

On April 18, 2013, the Company completed a $200,000 public offering of second lien senior secured notes which bear interest at 8.625% and mature on April 18, 2018.

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 swap. This interest rate swap is 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 which may be settled in cash or common shares at the option of the holder 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. On November 5, 2013, the $5,000 convertible debt with a related party was negotiated such that its maturity is April 30, 2018.

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

Interest Rate Risk
Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. The Company is exposed to interest rate risk through its floating rate Revolving Facility, whose interest rates are based on prime.

As at December 31, 2013, 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 $287.

Currency Risk
Virtually all of the Company's transactions are denominated in Canadian dollars. At December 31, 2013 and 2012, the Company held no significant financial instruments that were denominated in other than Canadian currency.

(in thousands of Canadian dollars)

19. Commitments

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

	December 31, 2013	December 31, 2012
	$	$
Less than one year	**14,218**	13,653
Between one and five years	**41,668**	38,184
More than five years	**15,662**	17,950
Total	**71,548**	69,787

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, 2013 were $25,546 (December 31, 2012 - $24,831)

20. 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.

(in thousands of Canadian dollars)

21. 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) Retail and Home Medical Equipment; (iv) Assessments; and, (v) Surgical and Medical.

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, 2013						
	Physiotherapy $	**Pharmacy $**	**Retail & Home Medical Equipment $**	**Assessments $**	**Surgical and Medical $**	**Corporate $**	**Total $**
Revenue	170,412	105,631	112,107	37,005	30,709	—	**455,864**
Depreciation and amortization	12,742	7,139	6,904	4,323	2,934	542	**34,584**
Interest expense	—	—	—	—	—	36,194	**36,194**
Income (loss) before interest expense and income taxes[9]	9,225	5,172	(9,664)	4,220	(1,100)	(63,203)	**(55,350)**
Capital expenditures	2,322	1,738	3,251	12	1,935	720	**9,978**
Goodwill	86,441	30,802	5,574	32,457	15,728	—	**171,002**
Total assets	156,057	63,143	70,571	50,822	31,366	19,341	**391,300**
Total liabilities	14,176	9,652	18,197	4,592	5,763	324,007	**376,387**

[9] Included in the income before interest expense and income taxes for the Corporate segment are $59,507 of non-cash impairment charges, $12,562 of non-cash gains from the net decrease in the fair value of the contingent consideration liability for the period, $5,403 in transaction and restructuring costs and $4,886 of non-cash gains from the change in fair value of derivative financial instruments.

	As at and for the year ended December 31, 2012						
	Physiotherapy $	**Pharmacy $**	**Retail & Home Medical Equipment $**	**Assessments $**	**Surgical and Medical $**	**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[11]	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	41,312	29,710	**486,752**
Total liabilities	13,340	8,091	17,878	4,150	5,340	342,847	**391,646**

[11] 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 the derivative financial instrument.

(in thousands of Canadian dollars)

22. Supplementary Disclosure to the Consolidated Statements of Cash Flows

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

	For the years ended December 31,	
	2013 **$**	2012 $
Trade and other receivables	**(1,066)**	2,967
Inventories	**3,960**	(4,562)
Prepaid expenses	**186**	(14)
Trade payables and other amounts	**(6,838)**	(9,199)
Total	**(3,758)**	(10,808)

23. Subsequent Events

On March 5, 2014, the Company entered into a definitive agreement to sell 100% of the common shares of its Home Care business, CAR, to an arm's length third party purchaser for proceeds of $2.5 million, subject to certain adjustments. The purchase price will be satisfied by the issuance of an eight-year note. The note is expected to bear interest at 12% per annum, subject to adjustment, payable monthly. Completion of the purchase and sale transaction is subject to certain healthcare regulatory consents, as well as customary closing conditions. The Company is also currently pursuing the sale of its Seniors Wellness operations.

On March 27, 2014, the Company and its senior lenders amended the Revolving Facility, which included amendments to certain financial performance covenants for 2014 and beyond.