Centric Health

Your Care. Our Focus.

Management's Discussion and Analysis
For the three month periods ended March 31, 2014 and 2013

Dated: May 6, 2014

Index

Management's Discussion and Analysis

For the three month periods ended March 31, 2014 and 2013

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 three month periods ended March 31, 2014 and 2013 and of certain factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three month periods ended March 31, 2014 and 2013. The unaudited interim consolidated financial statements for the three month periods ended March 31, 2014 and 2013 are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The Company's significant accounting policies are summarized in detail in note 1 of the consolidated financial statements for the years ended December 31, 2013 and 2012 which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 May 6, 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 the three month period ended March 31, 2014

Financial Performance

Revenue and Adjusted EBITDA[1] decreased to $110.3 million and $6.7 million for the three month period ended March 31, 2014 from $113.3 million and $7.8 million for the same period in the prior year. These decreases were mainly due to the regulatory changes in Ontario for seniors physiotherapy services which took effect in August 2013 and due to the impact of a perceived conflict of interest matter which decreased ADP related referrals in the Company's Retail and Home Medical Equipment segment in the first quarter of 2014. These decreases were partially offset by organic growth in the Pharmacy segment and Rehabilitation and Wellness segments. The Company continued its focus on operational and working capital initiatives in the first quarter of 2014 which resulted in positive cash flow from operations for the eighth consecutive quarter and a working capital improvement of $8.3 million from the first quarter of 2013 to the first quarter of 2014. The working capital improvement is mainly a result of enhanced collection of accounts receivable.

The Company's revenue, Adjusted EBITDA and Adjusted EBITDA margin all marginally increased from the fourth quarter of 2013 to the first quarter of 2014. These increases are in spite of the full quarter impact of the perceived conflict of interest matter in the first quarter of 2014 which resulted in decreased revenue and Adjusted EBITDA in the Company's Retail and Home Medical Equipment segment. The Company experienced organic growth in its Pharmacy and Rehabilitation and Wellness segments from the fourth quarter of 2013 to the first quarter of 2014.

Additionally as a result of recent developments related to the perceived conflict of interest matter, on March 27, 2014, the Company and its senior lenders amended the Company's Revolving Facility, which included amendments to certain financial performance covenants for the second quarter of 2014 and beyond.

Perceived Conflict of Interest

In light of recent determinations by the Ontario Ministry of Health and Long-Term Care ("MOHLTC") surrounding a perceived conflict of interest between the Company's home care and seniors wellness businesses and its retail and home medical equipment operations, the Company has entered into agreements for the sale of the home care and seniors wellness businesses, 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 affected operations 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"), and a non-binding letter of intent to sell 100% of its seniors wellness operations to an arm's length third party purchaser, LifeSpan Health and Wellness Limited ("LifeSpan"). These transactions are expected to close on or about May 8, 2014.

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 first quarter as a result of lower ADP related referrals during this period. Referrals are expected to progressively increase to historical levels over the medium term now that this perceived conflict has been resolved.

People

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

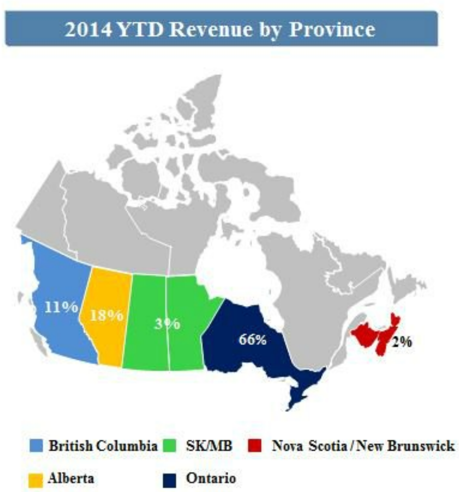
Business Overview

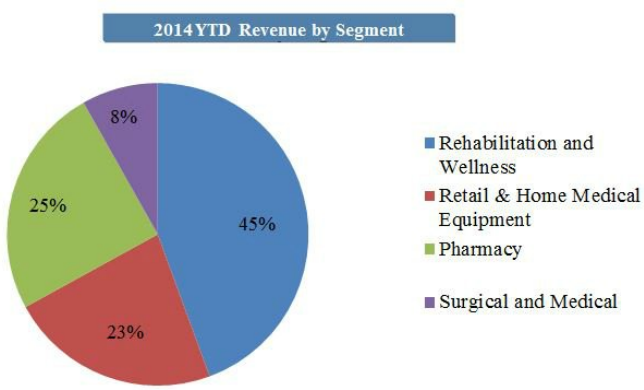
Centric Health Corporation is a Canadian healthcare services company with the largest healthcare services platform and networks across Canada in physiotherapy, assessments, seniors' wellness, surgical and medical centres, specialty pharma, orthotics and home medical equipment. The Company reaches approximately 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 three month period ended March 31, 2014 by province and segment are denoted below.



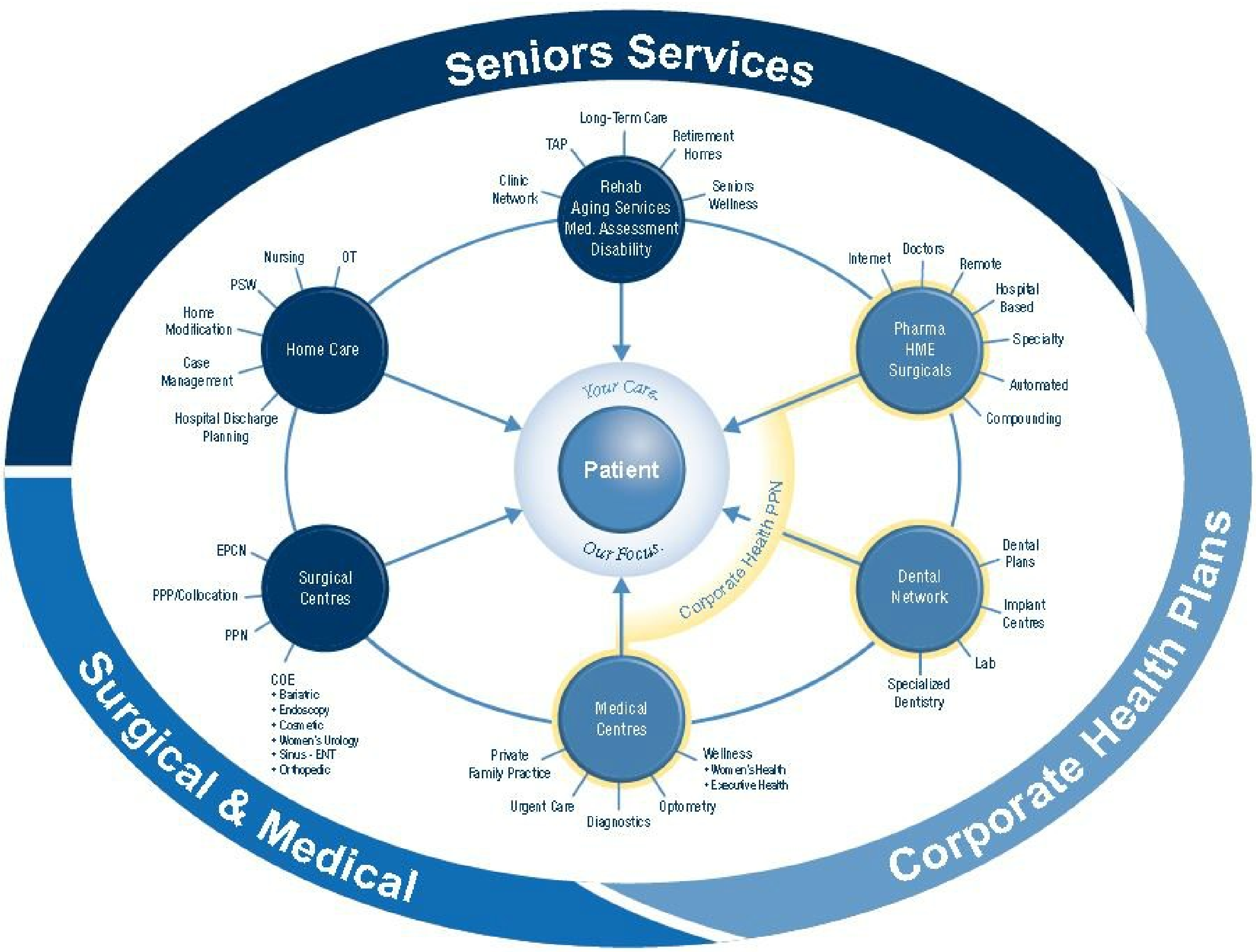


Centric Health has a strategic focus to differentiate its services and product offerings by partnering with healthcare professionals and employees to achieve clinical excellence with a focus on the highest standards of care. Centric Health's long-term objective is that management, staff and healthcare 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.

From 2010 to 2012, Centric Health embarked on an aggressive acquisition growth strategy in order to create an unparalleled Canadian national healthcare platform. The integration of the varying acquired businesses has provided the Company with challenges over the past four years. In order to meet these challenges and to further grow Centric Health, the Company's Board of Directors brought in a highly regarded leader in Canadian healthcare, David Cutler, as its CEO in the fall of 2012. Under the leadership of Mr. Cutler, a new senior leadership team was appointed in the first half of 2013. The Company's new leadership team has launched a strategic initiative to define the Company's long term operating model and the markets which the Company serves. In addition, the leadership team is reaffirming the Company's overarching focus on quality patient care and innovation.

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

Diversified Healthcare Portfolio Strategy

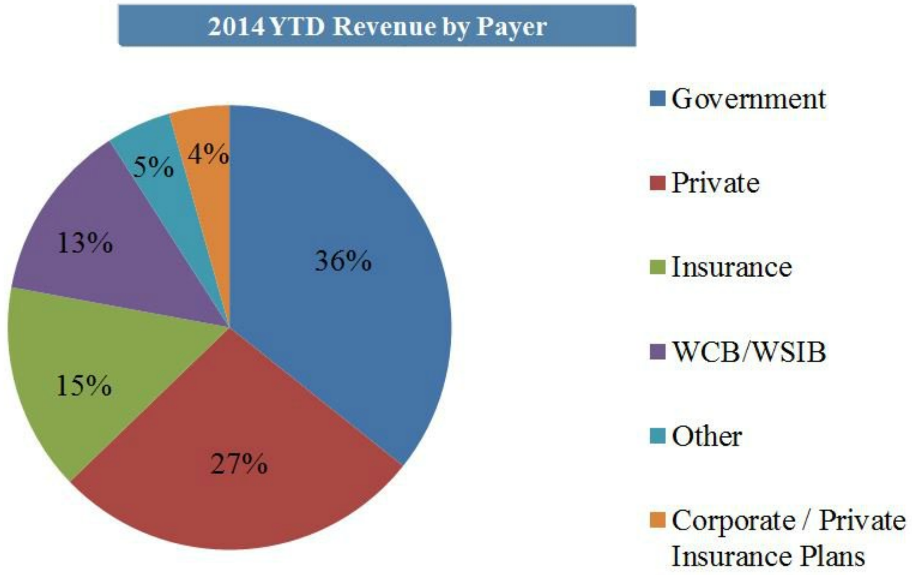


The Company's primary focus areas and target markets are as follows:

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 rehabilitation 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 rehabilitation 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 the first quarter of 2014, a Three-Year Accreditation, with CARF, was achieved by the following rehabilitation centres in Alberta:

- Centric Health LifeMark Centre - Calgary NE for the following programs:
    - Interdisciplinary Outpatient Medical Rehabilitation: Brain Injury Specialty
    - Interdisciplinary Pain Rehabilitation
    - Occupational Rehabilitation
    - Vocational Services: Brain Injury Specialty
    - Comprehensive Vocational Evaluation Services
    - Employee Development Services
    - Employment Planning Services
- The LifeMark Health Institute in Edmonton for the following program:
    - Interdisciplinary Pain Rehabilitation
- Centric Health LifeMark Centre - Grande Prairie for the following programs:
    - Occupational Rehabilitation
    - Community Employment Services: Job Development
    - Comprehensive Vocational Evaluation Services
    - Employee Development Services
    - Employment Planning Services
- Centric Health LifeMark Centres - Calgary NW and Calgary SE for the following programs:
    - Occupational Rehabilitation
    - Comprehensive Vocational Evaluation Services
    - Employee Development Services
    - Employment Planning Services

The survey report included a number of strengths for each location including consistent themes in the areas of:

- Centric Health having a strong relationship with the Workers' Compensation Board and building relationships in areas with other third-party payers;
- well-rounded programs and services being offered in various locations to offer workers with injuries and others accessing services an opportunity to re-enter their community roles well prepared;
- employing staff members who are enthusiastic and motivated to provide quality rehabilitative care. Professionalism was evident throughout the organization from upper management personnel to direct support teammates;
- clients expressing satisfaction with the staff and would recommend the services from Centric Health, to their family, friends, and relatives;
- referral sources report satisfaction with the services provided as the organization offers a quality program. They commented on the timeliness and consistency of communication and attention to detail provided by the program to work for the improvement and well-being of the client;
- offering to the client a variety of effective educational programs;
- clients and their families indicating the benefit from the experience and collaboration of this interdisciplinary team and the consistency of services that it provides;
- case files being standardized, professionally organized, and secured to protect confidentiality;
- employee development services including a variety of educational sessions for individuals to develop needed job search and work awareness skills with instructors that are flexible and able to customize training sessions to address specific needs of persons served; and
- maintaining a good reputation in the community and being responsive to requests of funders and referral sources. Staff members are recognized for the openness of communication, flexibility in responding to changes, and timeliness of reports. Stakeholders also expressed appreciation for the organization's commitment to meet the needs of individuals in more rural areas of the province through the establishment of satellite offices and other outreach services.

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. The Company's senior leadership team, under the direction of CEO David Cutler, has completed a review which analyzed and evaluated the Company's businesses individually and as a group. They have 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. The Company's growth plans will be focused on expanding the footprint of its rehabilitation clinic network, expansion of its pharmacy operations to Western Canada and growing its offering of specialized surgical solutions. However, the Company only plans on launching any acquisition or growth 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. Any acquisitions should 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. Organic growth initiatives will be focused on those with a low cost capital investment which utilizes the Company's existing resources and capacity.

In spite of recent regulatory challenges, the Company has demonstrated steady organic growth in its Pharmacy segment and within the rehabilitation clinics and assessment operations of the Rehabilitation and Wellness segment. In addition, the Company realized positive results from the recently acquired bariatric operations within the Surgical and Medical Centre segment. The Company is focused on continuing this growth while strengthening underperforming businesses. 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 Chris 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 fourth quarter of 2013 and the first quarter of 2014, as a result of lower ADP related referrals during these periods. Referrals are expected to progressively increase to historical levels with the resolution of this perceived conflict. 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 businesses and a non-binding letter of intent to sell 100% of the common shares of its seniors wellness business.

The Company continues to focus on strengthening its balance sheet. In March 2014, the Company 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 $27 million. Moreover, with the exception of the 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 debt structure which does not require principal repayments until maturity along with the partial repayment of preferred partnership units completed in the second quarter of 2013 has provided the Company with an additional $10 million in free cash flow on an annualized basis. The Company will continue to focus on strengthening its balance sheet through strategic repayments of the Company's most expensive debt arrangements based on the generation of free cash flow from operations and from other opportunities as they arise.

Rehabilitation and Wellness

This segment was impacted by funding model changes announced by the Ontario MOHLTC enacted in August 2013 related to physiotherapy services for seniors. The Company took 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. The Company has been pursuing opportunities through private pay services of rehabilitation and other ancillary services to retirement homes, and publicly funded physiotherapy services. The average number of annual treatments per resident has been significantly reduced but reimbursed at a higher tariff. Other reimbursement alternatives have been explored. In addition, the Company implemented a cost containment program to restore the division's profit margins while focusing on the delivery of high quality patient care. In May 2014, the Company announced the intended sale of its seniors wellness and home care operations to an arm's length third party to resolve a perceived conflict of interest matter.

There continues to be a focus on growth in the Rehabilitation and Wellness segment from the Company's rehabilitation clinics and assessment centres through organic expansion initiatives such as expanding its preferred provider relationships with employers and other organizations. The Company is also seeking to increase its local marketing initiatives in order to increase the volume of patient visits and brand awareness. The Company may expand its rehabilitation clinic footprint through strategic acquisitions. However, growth through acquisition will only occur if the acquisition will be accretive to income and complementary to the Company's national network. Growth at the Company's assessment centres will be achieved by increasing market share through successful RFPs.

Pharmacy

The Company's pharmacies are all currently located in Ontario and expansion of its pharmacy operations into Western Canada is part of the Company's strategy. Revenues for the Company's pharmacy operations are expected to continue to increase in the balance of 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 Retail and Home Medical Equipment segment realized positive top-line growth in the first three quarters of 2013, however revenue growth has been stalled over the past two quarters mainly due to the Company's perceived conflict of interest matter which has resulted in lower ADP referrals during this period. This matter is being resolved in the second quarter of 2014 and the Company's top-line growth is expected to progressively continue to past levels and beyond over the medium term. The Company is 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.

In the first quarter of 2014, the Company took 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 the Retail and Home Medical Equipment segment. 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 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, with approximately half of this segment's inventory balance migrated to a perpetual inventory system by the end of 2014. 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. Cost management is also an area of focus which includes reducing discretionary spending, bulk-purchasing initiatives and spending caps.

Surgical and Medical Centres

The financial results of the surgical and medical operations of the Company improved in the first quarter of 2014 driven mainly from the Company's bariatric operations which has grown as a result of the Company's acquisition of Surgical Weight Loss Centres ("SWLC") in the fourth quarter of 2013. The Company had also placed significant efforts into rebuilding the surgical operations at its Sarnia facility but the recovery at this facility has not been realized. As a result of ongoing losses and projected losses into the future, the Company decided in April 2014 to close this facility effective April 30, 2014. By closing this facility, the Company expects to improve the Adjusted EBITDA and cash flow contributions from this segment by the third quarter of 2014. 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. 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.

$000's (except for per share amounts)

Selected Financial Information

The following selected financial information as at and for the three month periods ended March 31, 2014 and 2013, has been derived from the unaudited interim consolidated financial statements as at and for the three month periods ended March 31, 2014 and 2013, and should be read in conjunction with those financial statements and related notes. The results of acquisitions are added from their respective dates of completion. Non-IFRS measures are defined and reconciled in the section immediately following the selected financial information.

	For the three month periods ended March 31,		
	2014 **$**	2013 [3] $	2012 $
Revenue	**110,326**	113,281	104,253
(Loss) income from operations	**(3,534)**	(3,030)	1,944
(Loss) income before interest expense and income taxes	**(19,618)**	7,801	694
EBITDA[2]	**(11,174)**	16,394	7,010
Adjusted EBITDA[2]	**6,716**	7,828	11,779
Per share - Basic	**$0.05**	$0.06	$0.11
Per share - Diluted	**$0.04**	$0.04	$0.09
Adjusted EBITDA Margin	**6.1%**	6.9%	11.3%
Net (loss) income	**(27,958)**	2,965	(4,651)
Per share - Basic	**$(0.21)**	$0.02	$(0.04)
Per share - Diluted	**$(0.21)**	$0.02	$(0.04)
Cash flow from operations	**3,832**	200	(10,903)
Total assets	**366,411**	483,954	508,001
Total non-current liabilities	**309,833**	290,853	104,111

[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 expense (recovery). Adjusted EBITDA is defined as EBITDA before transaction and restructuring costs, change in fair value of contingent consideration liability, impairments, change in fair value of derivative financial instruments, gain on disposal of property and equipment and stock based compensation expense. Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by revenue. Adjusted EBITDA per share is defined as Adjusted EBITDA divided by the weighted outstanding shares on both a basic and diluted basis. The Company believes that Adjusted EBITDA is a meaningful financial metric as it 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 ended March 31, 2014 and 2013:

	For the three month periods ended March 31,	
	2014	2013 [3]
	$	$
Net (loss) income	**(27,958)**	2,965
Depreciation and amortization	**8,359**	8,561
Interest expense	**8,271**	6,918
Amortization of lease incentives	**85**	32
Income tax expense (recovery)	**69**	(2,082)
EBITDA	**(11,174)**	16,394
Transaction and restructuring costs	**1,383**	523
Change in fair value of contingent consideration liability	**(17)**	(6,945)
Impairments	**16,494**	—
Stock-based compensation expense	**423**	1,747
Change in fair value of derivative financial instruments	**(393)**	(3,886)
Gain on disposal of property and equipment	**—**	(5)
Adjusted EBITDA	**6,716**	7,828
Basic weighted average number of shares	**133,563**	123,990
Adjusted EBITDA per share (basic)	**$0.05**	$0.06
Fully diluted weighted average number of shares	**189,837**	179,423
Adjusted EBITDA per share (diluted)	**$0.04**	$0.04

[3] As part of the year end financial statement close process for the year ended December 31, 2013, the Company's Motion Specialties operations performed an inventory count and valuation. Upon the completion of the inventory count and inventory valuation, an adjustment of $1,915 ($1,408 net of income taxes) was recorded for the three month period ended March 31, 2013 which reduced inventory and increased cost of healthcare services and supplies.

Results of Consolidated Operations for the three month periods ended March 31, 2014 and 2013

Revenues

The Company's revenue for the three month period ended March 31, 2014 decreased by $2,955 to $110,326 as compared to the prior year. This decrease was primarily due to:

- Retail and Home Medical Equipment - a decrease in revenue of $3,940 as a result of lower ADP referrals due to the perceived conflict on interest matter and reduced order fulfillment due to an IT conversion at one of the Company's larger retail stores; and
- Funding for seniors in Ontario - a decrease of $8,237 as a result of the funding changes for physiotherapy services for seniors implemented by the government of Ontario in August 2013.

Partially offsetting these increases were:

- Organic growth - growth of $6,322 in the Rehabilitation and Wellness, Pharmacy, and Surgical and Medical Centre segments in spite of the impact of a harsh winter which increased cancellations in the Rehabilitation and Wellness segment;
- Acquisitions - the purchase of SWLC and other start-up initiatives contributed incremental revenue of $2,005; and
- Business Days - $1,118 from one additional business day in the first quarter of 2014 as compared to the first quarter of 2013.

Expenses

Cost of healthcare services and supplies includes practitioner consultant fees associated with the rehabilitation, 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 three month period ended March 31, 2014 were $66,839 as compared to $69,366 in the prior year. Cost of healthcare services and supplies remained relatively consistent as a percentage of revenue over the comparative periods at 60.6% and 61.2%, respectively.

Employee costs include salaries and benefits of employees working directly in each business segment. For the three month period ended March 31, 2014, employee costs were $16,657 or 15.1% of revenue as compared to $16,050 or 14.2% of revenue in the prior year. These costs have increased as a percentage of revenue due to the overall decrease in revenues due in part to the impact of the ADP conflict of interest matter. The Company continues to monitor its employee costs and expects these costs as a percentage of revenue to return to more historical levels in future quarters given the resolution of the conflict of interest matter in May 2014.

Other operating expenses include occupancy costs, insurance, communication, advertising and promotion and administrative expenses incurred at the operational level. Other operating expenses for the three month period ended March 31, 2014 were $15,482 which is comparable to $15,555 of other operating expenses in the first quarter of 2013.

Corporate office expenses include salaries and benefits, occupancy costs, insurance, communication, advertising and promotion and other costs of the corporate office. Corporate office expenses were $4,717 for the three month period ended March 31, 2014 as compared to $4,514 for the three month period ended March 31, 2013. The Company's corporate office expenses have increased as part of the strengthening of the Company's leadership team. The Company added the Chief Information Officer and Chief Operating Officer positions in the second quarter of 2013 and internal legal counsel and internal communications in the first quarter of 2014. In addition, the Company incurred advisory fees of $225 to Global Healthcare Investment Solutions Inc. ("GHIS"), a related party, in the first quarter of 2014. Advisory fees from GHIS had been waived in the first quarter of 2013. These increases are partially offset by cost savings from a reorganization of the finance department in the second half of 2013.

Depreciation and amortization decreased by $202 to $8,359 for the three month period ended March 31, 2014 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 September 30, 2013 and December 31, 2013.

Stock-based compensation expense, a non-cash expense, decreased $1,324 for the three month period ended March 31, 2014 versus the comparable periods in the prior year. The decrease over the prior year can be mainly attributed to the share based compensation expense incurred in the first quarter of 2013 related to the release of escrowed shares to the vendor of Performance Medical Group as part of employment arrangements.

$000's (except for per share amounts)

Transaction and restructuring costs increased by $860 to $1,383 for the three month period ended March 31, 2014 as compared to the same period in the prior year. Transaction and restructuring costs are higher in 2014 as compared to 2013 as a result of external consulting costs incurred as part of the Company's long-term strategic planning, legal costs associated with the sale of the home care and seniors wellness operations and severance costs associated with leadership changes at the Motion Specialties operations.

Loss from operations for the three month period ended March 31, 2014 was $3,534 or 3.2% of revenues. The Adjusted EBITDA for the three month period ended March 31, 2014 was $6,716 as compared to $7,828 for the same period in the prior year. The Adjusted EBITDA margin decreased to 6.1% from 6.9% over the comparative period mainly due to reduced revenue from the Company's seniors wellness operations which tended to have higher margins and reduced margins in the Retail and Home Medical Equipment segment, partially offset by increased margins in the Pharmacy and Surgical and Medical Centre segments.

Interest expense for the three month period ended March 31, 2014 was $8,271 as compared to $6,918 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. Interest expense excluding amortization and accretion expenses for the three month period ended March 31, 2014 was $6,812 as compared to $5,500 in the prior year. The main reason for this increase over the prior year is the Company having a higher borrowing rate on its second lien senior secured notes as compared to the Company's old Term Loan which was in place in the first quarter of 2013.

	For the three month periods ended March 31,	
	2014 $	2013 $
Interest on long-term loan, revolving facilities and second lien senior secured notes	**4,834**	2,781
Amortization of loan arrangement fees	**305**	498
Interest on related party amounts	**157**	161
Accretion of related party loan discounts	**102**	109
Interest on capital leases	**17**	12
Amortization of deferred gain on interest rate swap	**(5)**	(20)
Interest on convertible debt	**822**	791
Accretion on convertible debt	**1,057**	831
Interest expense before distributions for preferred partnership units	**7,289**	5,163
Distributions for preferred partnership units	**989**	1,755
Total interest expense	**8,278**	6,918
Interest income	**(7)**	—
Net interest expense	**8,271**	6,918
Accretion and amortization expenses	**1,459**	1,418
	6,812	5,500

The **change in fair value of derivative financial instruments** of $393 for the three month period ended March 31, 2014 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 three month period ended March 31, 2014, the Company recognized gains on the **fair value of contingent consideration liabilities** of $17 as compared to gains of $6,945 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 largest component of the change in fair value of contingent consideration at March 31, 2013 related 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 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 had recorded a gain of $6,163 for the change in fair value of Motion Specialties contingent consideration for the three month period ended March 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.

The Company recorded an **impairment** of $16,494 for the three month period ended March 31, 2014. The Company identified two triggering events in the current quarter. Subsequent to March 31, 2014, the Company signed a non-binding letter of intent to sell its seniors wellness operations to an arm's length third party. An impairment of $13,835 was recorded based on the fair value of the purchase consideration as compared to the carrying value of the net assets of the seniors wellness operations. Subsequent to March 31, 2014, the Company also determined that it would close its Sarnia surgical operations effective April 30, 2014. The Company determined that goodwill and leasehold improvements of $2,659 associated with these operations would not be recoverable and as such recorded an impairment for these balances.

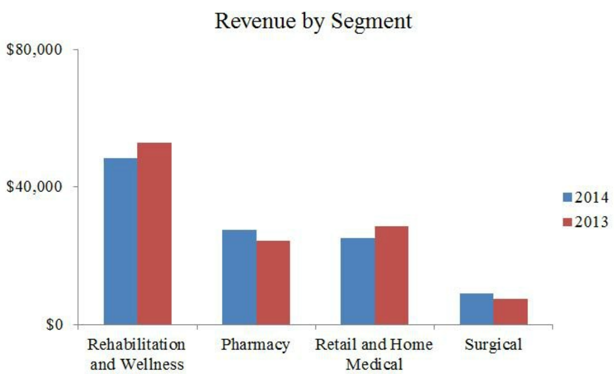
The **income tax expense** was $69 for the three month period ended March 31, 2014 as compared to a recovery of $2,082 for the same period in the prior year. The Company has projected that it will generate taxable income in order to use these loss carryforwards, except for an unrecognized deferred tax asset of $15,922 which the Company has not recorded at March 31, 2014 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.

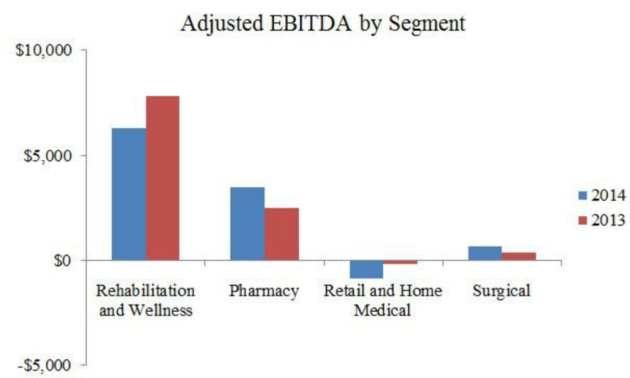
$000's (except for per share amounts)

Results of Segmented Operations

This section presents the results of operations for the three month periods March 31, 2014 and 2013 for the various operating segments of the Company. As a result of the strategic initiative to define the Company's long term operating model and the markets which the Company serves, the Company's Chief Operating Decision Maker ("CODM") has amended the manner in which the business is operated and accordingly how financial information is presented to the CODM. As a result, the Company has amended its reportable operating segments and will now report four reportable operating segments rather than five reportable operating segments as was previously presented. Operating segments, as reported to the CODM are as follows: Rehabilitation and Wellness, Pharmacy, Retail and Home Medical Equipment and Surgical and Medical Centres. The assessment operations which were separately reported in the past are now reported as part of the renamed Rehabilitation and Wellness segment. This segment was previously named the Physiotherapy segment. 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 three month periods ended March 31,	**Revenue**		**Adjusted EBITDA**			
	2014 **$**	2013 $	**2014** **$**	**%**	2013 [3] $	%
Rehabilitation and Wellness	**48,367**	52,925	**6,314**	**13.1**	7,824	14.8
Pharmacy	**27,611**	24,278	**3,501**	**12.7**	2,474	10.2
Retail and Home Medical Equipment	**25,217**	28,679	**(845)**	**(3.4)**	(160)	(0.6)
Surgical and Medical Centres	**9,131**	7,399	**645**	**7.1**	391	5.3
Corporate	—	—	**(2,899)**	—	(2,701)	—
Total	**110,326**	113,281	**6,716**	**6.1**	7,828	6.9





Rehabilitation and Wellness

At March 31, 2014, the Rehabilitation and Wellness segment was comprised of 105 owned rehabilitation clinics, a network of 36 additional clinics, seniors' wellness operations, the homecare business operated by CAR and 5 assessment facilities across Canada. As discussed in the Business Outlook, the Company has entered into agreements to sell the home care and seniors wellness businesses in May 2014.

The Company's network of rehabilitation clinics is the second largest clinic network in Canada based on the number of clinics and the assessment operations has over 30 preferred provider assessment agreements and 3,750 assessors including 600 physicians. This segment focuses on providing rehabilitative services to patients through its clinic network and assessing patients who have suffered motor vehicle and workplace injuries by providing independent evaluations to insurers, workers compensation boards and employers across Canada.

Revenue for the Rehabilitation and Wellness segment decreased to $48,367 from $52,925 for the three month period ended March 31, 2014 as compared to three month period ended March 31, 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 organic growth of 7.4% in the remainder of the operations in this segment.

$000's (except for per share amounts)

Adjusted EBITDA decreased from $7,824 for the three month period ended March 31, 2013 to $6,314 for the three month period ended March 31, 2014. This decrease is mainly attributed to the impact of regulatory and funding changes implemented by the Ontario MOHLTC in August 2013. These decreases were offset by the margin impact of organic growth from the remaining operations in this segment.

Pharmacy

The Company has a retail and niche pharmacy network with dispensing operations that service over 200 long-term care facilities with approximately 20,000 residents and 18 pharmacies that service 36 methadone treatment centres.

Pharmacy revenues increased to $27,611 for the three month period ended March 31, 2014 as compared to $24,278 for the comparative period in the prior year. The revenue increase is a result of organic growth as the Company has increased its script count and number of beds serviced over the comparative period.

Adjusted EBITDA increased to $3,501 for the three month period ended March 31, 2014 as compared to $2,474 in the first quarter of the prior year. This increase is mainly due to organic growth. In addition, Adjusted EBITDA in the prior year was lower due to incremental personnel costs associated with the implementation of EMAR for certain long-term care home contracts. These increases were partially offset with additional leasehold costs from the opening of a new dispensing facility in the first quarter of 2014.

Retail and Home Medical Equipment

The Company currently operates over 130 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 three month period ended March 31, 2014 was $25,217 as compared to $28,679 for the three month period ended March 31, 2013. The decrease over the comparative prior period is mainly due to the impact of the perceived conflict of interest matter which resulted in decreased ADP referrals in the first quarter of 2014 and the reduction of order fulfillment at one of the Company's larger locations while it was completing an IT transition.

Adjusted EBITDA for this segment for the three month period ended March 31, 2014 was a loss of $845 as compared to a loss of $160 in the comparative period in the prior year. This decrease can be attributed to the margin impact of reduced revenue from fewer ADP referrals. Partially offsetting this decrease were salary cost savings as a result of head count reductions in the first quarter of 2014 and the second quarter of 2013. The Company completed inventory count and valuation procedures at its retail stores at the end of the first quarter of 2014 in order to confirm the gross margin percentage for these operations for the three month period ended March 31, 2014.

Surgical and Medical Centres

At March 31, 2014, the Company had 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. In April 2014, the Company determined that it would cease operations at the Sarnia, Ontario facility effective April 30, 2014 as a result of the underperfomance of this centre.

The Company's surgical centres offer a variety of 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.

Revenue generated by the Surgical and Medical Centre segment for the three month period ended March 31, 2014 was $9,131 as compared to $7,399 in the first quarter of the prior year and adjusted EBITDA increased to $645 from $391 over the same period. The increases over the prior year can mainly be attributed to the Company's acquisition of SWLC which has been accretive to the Company's revenue and Adjusted EBITDA.

$000's (except for per share amounts)

Summary of Quarterly Results

	4th Quarter ($)		3rd Quarter ($)		2nd Quarter ($)		1st Quarter ($)	
Fiscal year 2014								
Revenue and other income							110,326	
Adjusted EBITDA							6,716	
Adjusted EBITDA per share								
Basic							0.05	
Diluted							0.04	
Net (loss) income							(27,958)	4
(Loss) earnings per share								
Basic							(0.21)	
Diluted							(0.21)	
Fiscal year 2013								
Revenue and other income	109,785		110,614		122,184		113,281	
Adjusted EBITDA	6,184	5	8,558	5	11,026	5	7,828	5
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	(39,253)	5,6	(40,595)	5,7	(13,967)	5,8	2,965	5,9
(Loss) earnings per share								
Basic	(0.30)		(0.31)		(0.11)		0.02	
Diluted	(0.30)		(0.31)		(0.11)		0.02	
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)	10	(6,273)	11	42,366	12	(4,651)	13
(Loss) earnings per share								
Basic	(0.32)		(0.05)		0.38		(0.04)	
Diluted	(0.32)		(0.05)		0.34		(0.04)	

[4] The net income for the quarter ended March 31, 2014 includes $17 as a non-cash gain in net income representing the decrease in fair value of the contingent consideration liability, a non-cash impairment of $16,494 and $1,383 of transaction and restructuring costs.

[5] 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. The impact of the adjustment including the effect of income taxes was $1,408, $1,606, $1,337 and $1,366, respectively.

[6] 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.

[7] 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.

[8] 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.

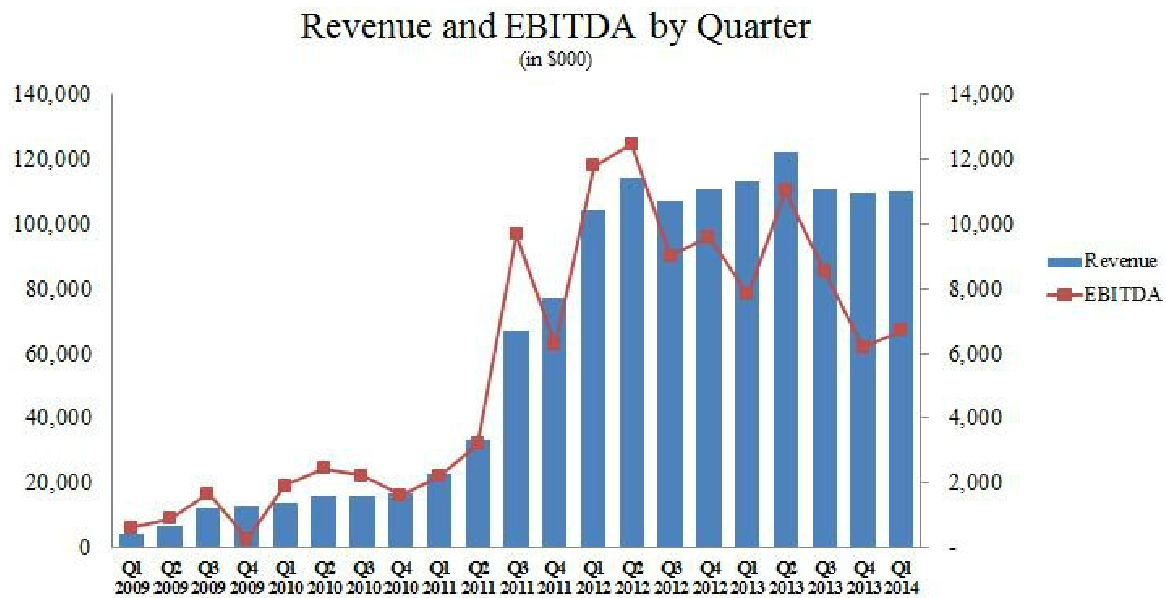
[9] The net income for the quarter ended March 31, 2013 includes $6,945 as a non-cash gain in net income representing the decrease in fair value of the contingent consideration liability and $523 of transaction and restructuring costs.

[10] 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.

[11] 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.

[12] 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.

[13] 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 experienced a decrease in revenue in the third quarter of 2013 as result of regulatory changes for physiotherapy services for seniors in Ontario in August 2013. The Company's revenue, Adjusted EBITDA and Adjusted EBITDA margin all marginally increased from the fourth quarter of 2013 to the first quarter of 2014. These increases are in spite of a full quarter impact in the first quarter of 2014 of the perceived conflict of interest matter which resulted in decreased revenue and Adjusted EBITDA in the Company's Retail and Home Medical Equipment segment. The Company continues to experience increased organic growth in its Pharmacy segment and the rehabilitation clinic and assessment portions of the Rehabilitation and Wellness segment.

The volatility in net (loss) income quarter over quarter in each quarter of 2012, 2013 and the first quarter of 2014 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 and Medical Centre 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 and Medical Centre segment and a decrease in Adjusted EBITDA in the Rehabilitation and Wellness segment due to the seasonality associated with the Company's rehabilitation 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 $57,644 at March 31, 2014. 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 March 27, 2014, 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 was in compliance with its financial performance covenants at December 31, 2013. At March 31, 2014, the Company had borrowed $27,000 against the Revolving Facility.

The Company's operating budget for 2014 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 maturity of the Revolving Facility. 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.

Cash Flow

Cash flow activities for the three month period ended March 31, 2014 were as follows:

Operating Activities

For the three month period ended March 31, 2014, cash provided by operating activities was $3,832, compared to $200 for the three month period ended March 31, 2013. The Company has generated positive cash flows from operating activities for eight consecutive quarters based as the Company has focused on cash management initiatives. In addition, included in operating activities are transaction and restructuring costs incurred of $1,383 for the three month period ended March 31, 2014. Cash provided by operating activities, exclusive of transaction and restructuring costs, was $5,215 for the three month period ended March 31, 2014. The Company's working capital improved by $8,275 from the first quarter of 2013 to the first quarter of 2014 due to effective cash management initiatives.

Investing Activities

For the three month period ended March 31, 2014, the Company used $2,068 for investing activities as compared to $2,982 for the three month period ended March 31, 2013. This decrease in investing activities as compared to the prior year is due to fewer contingent consideration payouts in the current quarter. The Company's capital expenditures were comparable between the first quarters of 2014 and 2013 at $2,111 and $2,147, respectively.

Financing Activities

During the three month period ended March 31, 2014, the Company borrowed an additional $4,000 from its Revolving Facility. The Company paid $1,713 in cash interest on its borrowings for the three month period ended March 31, 2014 as compared to $4,617 for the three month period ended March 31, 2013. This decrease was a result of the timing of the Company's interest payments. In the first quarter of 2013, the Company paid interest on its old Term Loan on a monthly basis, whereas interest on the second lien senior secured notes, which replaced the Term Loan in April 2013, is paid twice annually in the second and fourth quarters. In addition, the Company made a principal repayment on the old Term Loan of $3,750 in the first quarter of 2013, whereas the second lien senior secured notes do not require any principal repayments.

$000's (except for per share amounts)

Contractual Commitments[14]

The Company's contractual commitments at March 31, 2014, are as follows:

	Total ($)	1 year ($)	2-3 years ($)	4-5 years ($)	Thereafter ($)
Second lien senior secured notes	200,000	—	—	200,000	—
Revolving facility	27,000	—	27,000	—	—
Operating leases	70,352	13,997	25,225	16,678	14,452
Interest payments on borrowings	94,599	21,325	38,400	34,874	—
Finance leases	228	111	117	—	—
	392,179	35,433	90,742	251,552	14,452
Preferred partnership units[15]	35,500	—	25,000	10,500	—
	427,679	35,433	115,742	262,052	14,452

[14] 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.

[15] 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. 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 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 $53,308 in convertible debt from public and private offerings which principal and interest the Company can elect to settle in common shares of the Company.

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

$000's (except for per share amounts)

Equity

As at March 31, 2014, the Company had total shares outstanding of 152,995,764. The outstanding shares include 19,432,470 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 133,563,294 common shares outstanding as at March 31, 2014 and 133,363,294 shares outstanding at December 31, 2013.

The Company has convertible borrowings outstanding at March 31, 2014 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	10,808	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%
	53,308	44,172,347		

On January 1, 2014, the Company released 200,000 restricted shares to the Company's CEO.

As at March 31, 2014, there were a total of 8,266,000 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 March 31, 2014, was 4,069,250 with a weighted average exercise price of $1.38.

As at March 31, 2014, there were a total of 1,550,269 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 March 31, 2014, there were 33,177,310 warrants outstanding at a weighted average exercise price of $0.71

Should all outstanding options and warrants that were exercisable at March 31, 2014 be exercised, the Company would receive proceeds of $26,046.

As at the date of this report, May 6, 2014, the number of shares outstanding, including escrowed shares, is 152,995,764; the number of options outstanding is 8,266,000; the number of warrants outstanding is 33,177,710; and the number of restricted share units outstanding is 1,550,269. Included in the shares outstanding are 19,432,470 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 GHIS and entities controlled and related to the shareholders of GHIS including Jamon Investments LLC ("Jamon"), who own 40,901,287 shares or approximately 27% of the issued and outstanding common shares of the Company as at March 31, 2014. This ownership percentage disclosed assumes the issuance of 19,432,470 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 requires the Company to pay GHIS consulting fees to $75 per month from January 2014 to the completion of the agreement in June 2015.

For the three month periods ended March 31, 2014, the Company incurred $225 (March 31, 2013 - $nil) in GHIS consulting fees, $19 (March 31, 2013 - $11) in GHIS travel related expenses and $83 (March 31, 2013 - $87) in interest on related party amounts.

Included in trade payables and other amounts at March 31, 2014 and December 31, 2013 are $4,307 and $4,228, respectively, due to GHIS; and $25 and $25, 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 has a promissory note with Jamon for $5,000 that bears interest at 6% with a conversion feature which is due April 30, 2018. The conversion price for the note is $0.46 and the conversion of the note is at the option of the holder. 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 $0.46 per share which expires on April 30, 2018.

On September 3, 2012, the Company issued 1,000,000 restricted shares to the Company's CEO which vest over a four year period. On January 1, 2013, 200,000 of these restricted shares became freely tradeable and on January 1, 2014 the Company released an additional 200,000 shares which 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 is now performing inventory counts and inventory valuations at the end of each quarter over its retail and home medical equipment inventory and is adjusting its inventory and cost of good sold balances based on the results of these procedures.

The Certifying Officers have concluded that, as at March 31, 2014, 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 periods ended March 31, 2014, except for the implementation of quarterly inventory count and valuation procedures for Motion Specialties as denoted above, which has materially affected, or is reasonably likely to materially affect the Company's ICFR.

Off-Balance Sheet Arrangements

As at March 31, 2014, 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 were two triggering events which resulted in goodwill impairments of $16,165 for the three month periods ended March 31, 2014. 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 $15,922 which the Company has not recorded at March 31, 2014 in respect of certain non-capital losses.

Accounting Changes

Effective January 1, 2014, the Company adopted the following accounting standards:

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.*

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.*

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.

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

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 operations 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 will 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 Rehabilitation and Wellness 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 operations 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 any proposed transactions.

Subsequent Events

In April 2014, the Company determined that it would cease operations at the Company's surgical location in Sarnia, Ontario effective April 30, 2014.

On May 2, 2014, the Company announced that it expects to complete the sale of 100% of the common shares of its home care business, CAR, to an arm’s length third party purchaser, LifeSpan Health and Wellness Limited ("LifeSpan") for proceeds of $2.5 million, subject to certain adjustments, on or about May 8, 2014. The purchase price will be satisfied by the issuance of an eight-year note. The note bears interest at 7% per annum, payable monthly.

On May 2, 2014, the Company announced that a non-binding letter of intent to sell 100% of the common shares of its seniors wellness business, Active Health Services Limited ("Active"), to an arm’s length third party purchaser, LifeSpan, for proceeds of $12.0 million, subject to certain adjustments. The purchase price will be satisfied by the issuance of an eight-year note. The note will bear interest at 7% per annum, payable monthly. The transaction is expected to close, on or about May 8, 2014.

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.

Unaudited Interim Consolidated Financial Statements
For the three month periods ended March 31, 2014 and 2013

(in thousands of Canadian dollars)

Dated: May 6, 2014

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Notes to the Consolidated Financial Statements:

Centric Health Corporation
Unaudited Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)	**March 31, 2014**	December 31, 2013
	$	$
Assets		
Current assets		
Cash and cash equivalents	**1,211**	—
Trade and other receivables	**57,644**	58,531
Inventories (note 4)	**24,961**	23,953
Income taxes recoverable	**134**	—
Prepaid expenses	**2,294**	2,072
	86,244	84,556
Non-current assets		
Property and equipment (note 7)	**26,179**	26,335
Goodwill and intangible assets (note 7)	**248,291**	270,877
Deferred income tax assets (note 10)	**5,348**	9,140
Loans receivable	**141**	184
Investments in franchisees	**208**	208
Total assets	**366,411**	391,300
Liabilities		
Current liabilities		
Bank indebtedness	—	2,625
Trade payables and other amounts (notes 5, 12 and 13)	**68,902**	62,599
Current portion of finance lease liabilities	**111**	181
Current portion of contingent consideration (note 6)	**290**	217
Income taxes payable	—	1,232
	69,303	**66,854**
Non-current liabilities		
Borrowings (note 8)	**263,067**	257,571
Preferred partnership units (note 9)	**35,500**	35,500
Contingent consideration (note 6)	**1,317**	1,407
Finance lease liabilities	**117**	84
Deferred income tax liabilities (note 10)	**5,610**	10,283
Deferred lease incentives	**2,949**	2,848
Derivative liability portion of convertible borrowings (note 8)	**1,167**	1,720
Derivative financial instruments (note 8)	**106**	120
Total liabilities	**379,136**	376,387
Equity		
Share capital (note 14)	**99,262**	99,081
Warrants	**6,604**	6,590
Contributed surplus	**11,407**	11,179
Equity portion of convertible borrowings	**7,119**	7,119
Accumulated other comprehensive income	**23**	28
Deficit	**(137,916)**	(109,822)
Equity attributable to shareholders of Centric Health Corporation	**(13,501)**	14,175
Non-controlling interests	**776**	738
Total equity	**(12,725)**	14,913
Total liabilities and equity	**366,411**	391,300

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

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

	For the three month periods ended March 31,	
	2014	2013 (Restated - note 20)
	$	$
Revenue	**110,326**	113,281
Cost of healthcare services and supplies	**66,839**	69,366
General and administrative expenses (notes 3)	**45,638**	46,422
Transaction and restructuring costs (note 5)	**1,383**	523
Loss from operations	**(3,534)**	(3,030)
Interest expense (note 11)	**8,271**	6,918
Change in fair value of derivative financial instruments (note 8)	**(393)**	(3,886)
Change in fair value of contingent consideration liability (note 6)	**(17)**	(6,945)
Impairments (note 7)	**16,494**	—
(Loss) income before income taxes	**(27,889)**	883
Income tax expense (recovery)	**69**	(2,082)
Net (loss) income	**(27,958)**	2,965
Other comprehensive loss:		
Amortization of deferred gain on interest rate swaps	**(5)**	(20)
Comprehensive (loss) income	**(27,953)**	2,985
Net (loss) income attributable to:		
Shareholders of Centric Health Corporation	**(28,094)**	2,791
Non-controlling interests	**136**	174
Comprehensive (loss) income attributable to:		
Shareholders of Centric Health Corporation	**(28,089)**	2,811
Non-controlling interests	**136**	174
Basic (loss) earnings per common share	**($0.21)**	$0.02
Diluted (loss) earnings per common share	**($0.21)**	$0.02
Weighted average number of common shares outstanding (in thousands) (note 14)		
Basic	**133,563**	123,990
Diluted	**189,837**	179,423

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

Centric Health Corporation
Unaudited Interim 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, 2012	**121,389,445**	**92,201**	**6,256**	**7,928**	**6,498**	**201**	**(18,731)**	**94,353**	**753**	**95,106**
Shares released from escrow and warrants issued as contingent consideration	2,844,228	1,617	668	—	—	—	—	2,285	—	2,285
Shares released from escrow for compensation	1,500,000	915	—	—	—	—	—	915	—	915
Expiry of warrants	—	—	(297)	297	—	—	—	—	—	—
Amortization of deferred gain on interest rate swap	—	—	—	—	—	(20)	—	(20)	—	(20)
Deferred compensation expense	200,000	181	23	628	—	—	—	832	—	832
Payments to non-controlling interests	—	—	—	—	—	—	—	—	(81)	(81)
Net income for the period (restated - note 20)	—	—	—	—	—	—	2,791	2,791	174	2,965
Balance at March 31, 2013	**125,933,673**	**94,914**	**6,650**	**8,853**	**6,498**	**181**	**(15,940)**	**101,156**	**846**	**102,002**
Balance at December 31, 2013	133,363,294	99,081	6,590	11,179	7,119	28	(109,822)	14,175	738	14,913
Amortization of deferred gain on interest rate swap	—	—	—	—	—	(5)	—	(5)	—	(5)
Extinguishment of convertible debt	—	—	(10)	10	—	—	—	—	—	—
Deferred compensation expense	200,000	181	24	218	—	—	—	423	—	423
Payments to non-controlling interests	—	—	—	—	—	—	—	—	(98)	(98)
Net (loss) income for the period	—	—	—	—	—	—	(28,094)	(28,094)	136	(27,958)
Balance at March 31, 2014	**133,563,294**	**99,262**	**6,604**	**11,407**	**7,119**	**23**	**(137,916)**	**(13,501)**	**776**	**(12,725)**

[1] Excludes 19,432,470 of contingent shares held in escrow and restricted shares at March 31, 2014 (note 14).

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

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

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

	For the three month periods ended March 31,	
	2014	2013 (Restated - note 20)
	$	$
Cash provided by (used in):		
Operating activities		
Net (loss) income for the period	**(27,958)**	2,965
Adjustments for:		
Interest expense (note 11)	**8,271**	6,918
Change in fair value of derivative financial instruments (note 8)	**(393)**	(3,886)
Amortization of deferred gain on interest rate swap	**—**	(20)
Gain on disposal of property and equipment	**—**	(5)
Depreciation of property and equipment	**1,808**	1,749
Amortization of finite-life intangible assets	**6,551**	6,812
Amortization of lease incentives	**85**	32
Leasehold inducements	**15**	622
Income taxes paid	**(2,316)**	(232)
Income tax expense (recovery)	**69**	(2,082)
Stock-based compensation expense	**423**	1,747
Impairments (note 7)	**16,494**	—
Change in the fair value of contingent consideration liability (note 6)	**(17)**	(6,945)
Net change in non-cash working capital items (note 19)	**800**	(7,475)
Cash provided by operating activities	**3,832**	200
Investing activities		
Purchase of intangible assets (note 7)	**(130)**	(130)
Purchase of property and equipment (note 7)	**(1,981)**	(2,017)
Acquisition of businesses (note 5)	**—**	(211)
Payment of contingent consideration (note 6)	**—**	(688)
Decrease in loans receivable from franchisees	**43**	64
Cash used in investing activities	**(2,068)**	(2,982)
Financing activities		
Bank indebtedness	**(2,625)**	—
Interest paid	**(1,713)**	(4,617)
Repayment of borrowings	**(80)**	(3,750)
Proceeds from Term Loan and Revolving Facility, net of loan arrangement costs	**—**	10,963
Proceeds from new Revolving Facility (note 8)	**4,000**	—
Repayment of finance leases	**(37)**	(217)
Payments to non-controlling interests	**(98)**	(81)
Proceeds on disposal of property and equipment	**—**	5
Cash (used in) provided by financing activities	**(553)**	2,303
Increase (decrease) in cash and cash equivalents	**1,211**	(479)
Cash and cash equivalents, beginning of period	**—**	594
Cash and cash equivalents, end of period	**1,211**	115

The accompanying notes are an integral part of these unaudited interim 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 condensed unaudited interim consolidated financial statements for the three month periods ended March 31, 2014 and 2013 have been prepared by the Company in accordance with IAS 34, *Interim Financial Reporting* 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"). Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have not been included or have been condensed. The unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS.

These financial statements were approved by the Board of Directors on May 6, 2014.

The accounting policies applied in these unaudited interim consolidated financial statements are consistent with the significant accounting policies used in the preparation of the annual consolidated financial statements for the year ended December 31, 2013, except as described below. The Company's accounting policies have been consistently applied to all periods presented, unless otherwise stated. Income taxes for the interim periods are accrued using the tax rate that would be applicable to total annual earnings.

Segment Reporting

As a result of the strategic initiative to define the Company's long term operating model and the markets which the Company serves, the Company's Chief Operating Decision Maker ("CODM") has amended the manner in which the business is operated and accordingly how financial information is presented to the CODM. As a result, the Company has amended its reportable operating segments and will now report four reportable operating segments rather than five reportable operating segments as was previously presented. Operating segments, as reported to the CODM are as follows: Rehabilitation and Wellness, Pharmacy, Retail and Home Medical Equipment and Surgical and Medical Centres. The assessment operations which were separately reported in the past are now reported as part of the renamed Rehabilitation and Wellness segment. This segment was previously named the Physiotherapy segment. The comparative balances in note 18 have been amended to reflect the presentation of four reportable segments.

Adoption of new accounting standards

Effective January 1, 2014, the Company adopted the following accounting standards:

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.*

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.*

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.

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

New accounting standards that have been issued but are not yet effective

The impact of new standards, amendments to standards, and interpretations that have been issued but are not effective until financial periods beginning on or after January 1, 2015 and have not been early adopted are discussed in the Company's annual financial statements for the year ended December 31, 2013.

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 Company’s second lien senior secured notes contain incurrence covenants which restrict any addition of debt subject to the achievement of certain financial metrics. In addition, the Company amended and restated its existing credit agreement in April 2013 to provide a new Revolving Facility with a limit of $50,000. The new Revolving Facility included amended financial performance covenants through to its maturity in June 2015. On March 27, 2014, 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 was in compliance with its financial performance covenants at March 31, 2014.

The Company's operating budget for 2014 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 maturity of the Revolving Facility. 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.

(in thousands of Canadian dollars)

3. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	For the three month periods ended March 31,	
	2014	2013 (Restated - note 20)
	$	$
Employee costs	**16,657**	16,050
Other operating expenses	**15,482**	15,555
Corporate office expenses	**4,717**	4,514
Depreciation and amortization	**8,359**	8,561
Stock-based compensation expense	**423**	1,747
Gain on disposal of property and equipment	**—**	(5)
	45,638	46,422

4. Inventories

The Company’s inventory balances as at March 31, 2014 and December 31, 2013 consisted of the following:

	March 31, 2014	December 31, 2013
	$	$
Retail and home medical equipment	**18,782**	18,529
Medical supplies and prescription drugs	**6,179**	5,424
	24,961	23,953

There were no reversals of inventory provisions for the three month periods ended March 31, 2014 and 2013. Inventories are pledged as security as part of the Company's lending agreements as outlined in note 8.

5. Business Combinations

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.

(in thousands of Canadian dollars)

5. Business Combinations - continued

Transaction and restructuring costs for the three month periods ended March 31, 2014 and 2013 consist of the following:

	For the three month periods ended March 31,	
	2014	2013
	$	$
Transaction costs	**3**	25
Start-up costs	**19**	99
Restructuring costs	**1,361**	399
	1,383	523

At March 31, 2014, the Company had accrued liabilities related to restructuring costs of $2,204 (December 31, 2013 - $2,299) included in trade and other payables consisting of the following:

	Severance $	**Closed Locations $**	**Other $**	**Total $**
Balance at December 31, 2013	975	1,276	48	**2,299**
Additions	455	45	861	**1,361**
Payments	(791)	(196)	(469)	**(1,456)**
Balance at March 31, 2014	**639**	**1,125**	**440**	**2,204**

2013 Acquisitions

The purchase price and fair value of the net assets acquired for the Company's 2013 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. Contingent Consideration

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

Acquired entity	Acquisition date	Performance term	Contingent Cash Consideration[3] $	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 March 31, 2014 $
Blue Water	Aug. 17, 2011	3 years	—	6,153,846	3,076,923	0 – 595	0%	—
Motion Specialties	Feb. 13, 2012	3 years	15,000	9,004,641	7,500,000	0 – 5,792	0%	—
SmartShape	Dec. 2, 2013	2 years	871	1,075,000	600,000	0 - 1,805	80%	**1,087**
Other	Various	3 years	278	2,073,688	1,143,007	0 – 628	0% - 100%	**520**
Total			**16,149**	**18,307,175**	**12,319,930**	**0 – 8,820**		**1,607**

[3] The contingent cash, 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, issuable outperformance warrants and contingent cash 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 $8,820 based on the share price of the Company's common shares on March 31, 2014 ($0.33 per share) less a discount to reflect that the shares are not freely tradeable and the present value of the contingent cash consideration.

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

	SmartShape $	Other $	Total $
Balance at December 31, 2013:	1,006	618	**1,624**
Change in fair value during the period	81	(98)	**(17)**
Total contingent consideration	**1,087**	**520**	**1,607**
Less: current portion	**—**	**290**	**290**
Non-current portion at March 31, 2014	**1,087**	**230**	**1,317**

The above table includes contingent consideration payable in cash, subject to achieving performance milestones, in the amount of $65 at March 31, 2014 all of which may be payable within one year. In addition, the above table includes accrued liabilities of $1,085 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)

7. Goodwill, Intangible Assets and Property and Equipment

	Goodwill $	Intangible Assets $	Total $	Property and Equipment $
Year ended December 31, 2012	**213,345**	**140,375**	**353,720**	**25,002**
Additions	—	1,258	1,258	8,720
Acquisitions	2,614	—	2,614	53
Finance leases	—	—	—	40
Disposals	—	—	—	(3)
Purchase price allocation adjustment	(457)	356	(101)	—
Amortization	—	(27,107)	(27,107)	(7,477)
Impairment	(44,500)	(15,007)	(59,507)	—
Year ended December 31, 2013	**171,002**	**99,875**	**270,877**	**26,335**
Additions	—	130	130	1,981
Amortization	—	(6,551)	(6,551)	(1,808)
Impairment	(16,165)	—	(16,165)	(329)
Three month period ended March 31, 2014	**154,837**	**93,454**	**248,291**	**26,179**
As at December 31, 2013				
Cost	286,190	192,286	478,476	47,270
Accumulated amortization and impairment	(115,188)	(92,411)	(207,599)	(20,935)
Net carrying value	**171,002**	**99,875**	**270,877**	**26,335**
As at March 31, 2014				
Cost	286,190	192,416	478,606	49,251
Accumulated amortization and impairment	(131,353)	(98,962)	(230,315)	(23,072)
Net carrying value	**154,837**	**93,454**	**248,291**	**26,179**

The Company has $1,947 of indefinite life intangible assets at March 31, 2014 (December 31, 2013 - $1,947). The Company has $922 of intangible assets under development related to computer software (December 31, 2013 - $840).

For the three month period ended March 31, 2014, the Company identified a triggering event with respect to the impairment of goodwill in its Physiotherapy - Seniors Wellness CGU. Subsequent to March 31, 2014, the Company entered into a non-binding letter of intent with a third party to sell this CGU for consideration of $12,000, payable in eight years. The Company compared the fair value less cost to sell of this CGU to its carrying value. In order to determine the fair value, the Company used a discounted cash flow approach with a risk-adjusted weighted average cost of capital of 11.5%. Based on the valuation performed, the carrying value exceeded the fair value of the CGU by $13,835, which the Company has recorded as an impairment for the three month period ended March 31, 2014.

For the three month period ended March 31, 2014, the Company identified a triggering event with respect to the impairment of goodwill in the Surgical - Eastern Canada CGU. Subsequent to March 31, 2014, the Company finalized a decision to close its surgical facility in Sarnia, Ontario effective April 30, 2014. As a result, the Company assessed the recoverability of the assets associated with this facility and determined that the goodwill balance of $2,330 and the leasehold improvement balance of $329 would not be recoverable and resulted in the Company recording an impairment of these assets for the three month period ended March 31, 2014.

(in thousands of Canadian dollars)

8. Borrowings

Borrowings consist of the following:

	March 31, 2014	December 31, 2013
	$	$
Second lien senior secured notes	**200,000**	200,000
Loan arrangement costs	**(4,910)**	(5,153)
Revolving Facility	**27,000**	23,000
Convertible debt	**53,308**	53,388
Unaccreted discount on convertible debt	**(15,433)**	(16,490)
Fair value of redemption features[4]	**174**	—
Related party convertible loan (note 13)	**5,000**	5,000
Unaccreted discount on related party convertible loan	**(2,072)**	(2,174)
Total borrowings	**263,067**	257,571

[4] 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 $174 at March 31, 2014 (December 31, 2013 - $nil). The second lien senior secured notes include certain restrictions on the Company's ability to take on additional indebtedness based on its financial performance.

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. 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 was in compliance with its financial performance covenants at March 31, 2014. As at March 31, 2014, the Company had borrowed $27,000 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.

The Company's convertible debt as at March 31, 2014 and 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	10,808	December 22, 2016	6.00%
Private placement	15,000	April 30, 2016	5.50%
Public debt	27,500	October 31, 2017	6.75%
	53,308		

(in thousands of Canadian dollars)

8. Borrowings - continued

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

	For the three month period ended March 31, 2014 $	For the year ended December 31, 2013 $
Unaccreted discount on convertible borrowings, beginning of period	**16,490**	20,011
Accretion expense	**(1,057)**	(3,521)
Unaccreted discount on convertible borrowings, end of period	**15,433**	16,490

At March 31, 2014, the fixed interest rate on the Company's $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 gain on interest rate swaps not designated as a hedge was $14 for the three month period ended March 31, 2014 (March 31, 2013 - loss of $150). At March 31, 2014, the Company recorded a liability of $106 (December 31, 2013 - $120) for this derivative financial instrument.

The continuity of the redemption features are as follows:

	For the three month period ended March 31, 2014 $	For the year ended December 31, 2013 $
Redemption feature, beginning of period	—	(1,540)
Change in fair value of redemption features	**174**	1,540
Redemption features, end of period	**174**	—

The change in fair value of derivative financial instruments for the three month periods ended March 31, 2014 and 2013 are as follows:

	For the three month periods ended March 31,	
	2014 $	2013 $
Change in fair value of interest rate swaps	**(14)**	150
Change in fair value of redemption feature	**174**	822
Change in fair value of derivative liability portion of convertible borrowings	**(553)**	(4,858)
	(393)	(3,886)

The continuity of the derivative financial instruments is as follows:

	For the three month period ended March 31, 2014 $	For the year ended December 2013 $
Derivative financial instruments, beginning of period	**120**	823
Change in fair value of interest rate swaps	**(14)**	263
Settlement of interest rate swaps	—	(966)
Derivative financial instruments, end of period	**106**	120

(in thousands of Canadian dollars)

8. Borrowings - continued

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

	For the three month period ended March 31, 2014 $	For the year ended December 2013 $
Derivative liability portion of convertible borrowings, beginning of period	**1,720**	8,409
Change in fair value of derivative liability portion of convertible borrowings	**(553)**	(6,689)
Derivative liability portion of convertible borrowings, end of period	**1,167**	1,720

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 March 31, 2014 are as follows:

	Directed share program	**Public debt**	**Private placement redemption feature**
Expected volatility	53.46%	53.46%	53.46%
Risk-free interest rate	1.53%	1.73%	1.39%
Credit spread	30.64%	30.64%	30.64%

9. Preferred Partnership Units

This balance of $35,500 represents preferred partnership units issued by LifeMark Health Limited Partnership to Alaris Income Growth Fund Partnership ("Alaris"). 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 and has presented this amount as a long-term liability.

10. Income Taxes

The total provision for income taxes varies from the amounts that would be computed by applying the statutory income tax rate of approximately 26.5% (December 31, 2013 - 26.5%) due to permanent and timing differences. Permanent differences in the three month period ended March 31, 2014 and 2013 arose as a result of contingent consideration and intangible assets recognized for accounting purposes that 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 unaudited interim consolidated statement of financial position.

(in thousands of Canadian dollars)

10. Income Taxes - continued

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

	March 31, 2014	December 31, 2013
	$	$
Deferred income tax asset	**5,348**	9,140
Deferred income tax liability	**5,610**	10,283
Net deferred income tax liability	**(262)**	(1,143)

At March 31, 2014, the Company recorded $802 (December 31, 2013 - $802) in trade and other receivables related to Scientific Research and Experimental Development ("SRED") tax incentives. The net benefit recognized is based on estimates made by the Company as these credits have not yet been assessed and approved by taxation authorities.

As at March 31, 2014 and December 31, 2013, the Company had $77,543 and $70,769, 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 $15,922 which the Company has not recorded at March 31, 2014 (December 31, 2013 - $13,500) in respect of $60,083 (December 31, 2013 - $50,800) of non-capital losses carried forward. At March 31, 2014 and December 31, 2013, deferred tax assets of $40 and $40 were not recognized for capital losses for which the Company does not expect to realize the related benefit.

11. Interest Expense

Interest expense for the three month periods ended March 31, 2014 and 2013 is comprised of the following:

	For the three month periods ended March 31,	
	2014 **$**	2013 $
Interest on Term Loan, Revolving Facility and second lien senior secured notes	**4,834**	2,781
Amortization of loan arrangement fees	**305**	498
Interest on related party amounts	**157**	161
Accretion of related party loan discounts	**102**	109
Interest on capital leases	**17**	12
Amortization of deferred gain on interest rate swap	**(5)**	(20)
Interest on convertible debt	**822**	791
Accretion on convertible debt	**1,057**	831
Interest expense before distributions for preferred partnership units	**7,289**	5,163
Distributions for preferred partnership units	**989**	1,755
Total interest expense	**8,278**	6,918
Interest income	**(7)**	—
Net interest expense	**8,271**	6,918

(in thousands of Canadian dollars)

12. Trade Payables and Other Amounts

Trade and other payables at March 31, 2014 and December 31, 2013 are comprised of the following:

	March 31, 2014	December 31, 2013
	$	$
Trade payables	**35,618**	37,167
Accrued liabilities	**25,351**	17,735
Deferred revenue	**1,422**	1,170
Amounts payable to GHIS (note 13)	**4,307**	4,228
Restructuring costs (note 5)	**2,204**	2,299
	68,902	62,599

13. Related Party Transactions and Balances

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

Related party transactions

Related party transactions, in addition to those entered into with Company directors and management, have been entered into with Global Healthcare Investments and Solutions, Inc. (“GHIS”) and entities controlled and related to the shareholders of GHIS including Jamon Investments LLC ("Jamon"), who own 40,901,287 shares or approximately 27% of the issued and outstanding common shares of the Company as at March 31, 2014. This ownership percentage disclosed assumes the issuance of 19,432,470 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 requires the Company to pay GHIS consulting fees of $75 per month from January 2014 to the completion of the agreement in June 2015.

For the three month periods ended March 31, 2014, the Company incurred $225 (March 31, 2013 - $nil) in GHIS consulting fees, $19 (March 31, 2013 - $11) in GHIS travel related expenses and $83 (March 31, 2013 - $87) in interest on related party amounts.

Included in trade payables and other amounts at March 31, 2014 and December 31, 2013 are $4,307 and $4,228, respectively, due to GHIS; and $25 and $25, 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 has a promissory note with Jamon for $5,000 that bears interest at 6% with a conversion feature which is due April 30, 2018. The conversion price for the note is $0.46 and the conversion of the note is at the option of the holder. 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 $0.46 per share which expires on April 30, 2018.

(in thousands of Canadian dollars)

13. Related Party Transactions and Balances - continued

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

14. Shareholders' Equity and Earnings per Share

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

	For the three month period ended March 31, 2014		For the year ended December 31, 2013	
Common shares	**Shares**	**Stated value $**	Shares	Stated value $
Balance, beginning of year	**133,363,294**	**99,081**	121,389,445	92,201
Issuance of shares as compensation	**200,000**	**181**	200,000	289
Shares released from escrow or issued from treasury for contingent consideration[5]	—	—	3,856,814	2,033
Shares released from escrow for compensation[6]	—	—	1,500,000	915
Shares issued to GHIS for an amended consulting agreement	—	—	4,802,311	2,785
Stock options and restricted share units exercised	—	—	1,614,724	858
Balance, end of year	**133,563,294**	**99,262**	133,363,294	99,081

[5]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.
[6]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 number of common shares considered to be issued for financial reporting purposes is exclusive of restricted shares issued, shares issued in trust or held in escrow pending the achievement of certain stated milestones or performance targets.

Common shares related to contingent consideration held in escrow and restricted shares at March 31, 2014 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	600,000
Total	**19,432,470**

(in thousands of Canadian dollars)

14. Shareholders' Equity and Earnings per Share - continued

The continuity of restricted and escrowed shares for the three month period ended March 31, 2014 is as follows:

Escrowed and restricted shares	
Balance at beginning of the year	19,632,470
Additional escrowed shares	—
Released escrowed shares	—
Released restricted shares	(200,000)
Total	**19,432,470**

The total common shares in aggregate at March 31, 2014 are:

Type of common shares	
Freely tradeable	133,563,294
Escrowed and restricted	19,432,470
Total	**152,995,764**

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

	For the three month period ended March 31, 2014		For the year ended December 31, 2013	
Common share options	**Options**	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of period	**8,806,000**	**$1.37**	11,224,500	$1.29
Options granted	—	—	770,000	0.80
Options exercised	—	—	(700,000)	0.35
Options expired	—	—	(275,000)	0.77
Options cancelled /forfeited	**(540,000)**	**1.26**	(2,213,500)	1.19
Balance, end of period	**8,266,000**	**$1.37**	8,806,000	$1.37
Exercisable, end of period	**4,069,250**	**$1.38**	4,439,250	$1.37

The weighted-average remaining contractual life and weighted‑average exercise price of options outstanding as at March 31, 2014 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	3.8	125,000	0.31
$0.51 - $1.00	2,065,000	0.87	2.6	816,250	0.81
$1.01 - $1.50	950,000	1.03	0.7	950,000	1.03
$1.51 - $1.88	4,606,000	1.80	2.5	2,178,000	1.81
	8,266,000	**1.37**	**2.4**	**4,069,250**	**1.38**

(in thousands of Canadian dollars)

14. Shareholders' Equity and Earnings per Share - continued

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

	For the three month period ended March 31, 2014		For the year ended December 31, 2013	
Restricted share units	**Units**	**Weighted average exercise price**	Units	Weighted average exercise price
Balance, beginning of period	**1,583,548**	**0.56**	610,000	0.75
Restricted share units granted	—	—	1,918,555	0.49
Restricted share units exercised	—	—	(914,724)	0.55
Restricted share units forfeited	**(33,279)**	**0.49**	(30,283)	0.53
Balance, end of period	**1,550,269**	**0.56**	1,583,548	0.56

The weighted-average remaining contractual life of restricted share units outstanding as at March 31, 2014 is 1.4 years.

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

	For the three month period ended March 31, 2014		For the year ended December 31, 2013	
Share purchase warrants	**Warrants**	**Weighted average exercise price**	Warrants	Weighted average exercise price
Balance, beginning of year	**33,177,310**	**$0.71**	28,576,590	$0.55
Warrants granted	—	—	6,098,920	1.55
Warrants expired	—	—	(1,498,200)	1.09
Balance, end of period	**33,177,310**	**$0.71**	33,177,310	$0.71
Exercisable, end of year	**31,431,147**	**$0.65**	31,431,147	$0.65

The weighted-average remaining contractual life and weighted-average exercise price of warrants outstanding as at March 31, 2014 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**	0.9	**31,431,147**	**$0.65**

(in thousands of Canadian dollars)

14. Shareholders' Equity and Earnings per Share - continued

(Loss) earnings per share

(Loss) earnings 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) earnings per share, for all periods presented, was calculated based on the weighted average number of common shares outstanding and takes into account the effects of unvested shares, share options, warrants and convertible debt outstanding during the period. (Loss) earnings per share is not adjusted for anti-dilutive instruments. The weighted average calculation is based on a time weighting factor that includes all share options, 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.

The following table illustrates the basic and diluted weighted average shares outstanding for the three month periods March 31, 2014 and 2013.

	For the three month periods ended March 31,	
	2014	2013
Basic weighted average shares outstanding	**133,563,294**	123,989,676
Dilutive effect of unvested shares	**506,133**	138,868
Dilutive effect of share options	**11,810**	357,160
Dilutive effect of warrants	**739,160**	5,765,073
Dilutive effect of convertible debt	**55,016,271**	49,172,347
Diluted shares outstanding	**189,836,668**	179,423,124

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.

15. Financial Instruments and Fair Value Measurements

At March 31, 2014, 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)

15. Financial Instruments and Fair Value Measurements - continued

Recurring fair value measurements at March 31, 2014 are as follows:

	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and cash equivalents	—	1,211	—	**1,211**
Contingent consideration	—	—	1,607	**1,607**
Derivative financial instruments	—	106	1,167	**1,273**
Loan redemption features	—	—	174	**174**
	—	**1,317**	**2,948**	**4,265**

There were no non-recurring fair value measurements at March 31, 2014. There were no transfers between levels 1 and 2 during the three month period ended March 31, 2014.

The level 2 fair value for cash has been determined based on amortized cost using effective interest rate method. 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 6 and for the derivative financial instruments related to derivative liability component of convertible debt in note 8.

There were no changes in the valuation techniques used during the three month period ended March 31, 2014.

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:

	March 31, 2014 $	December 31, 2013 $
Financial assets measured at cost or amortized cost		
Trade and other receivables	**57,644**	58,531
Loans receivable	**141**	184
Financial liabilities measured at cost or amortized cost		
Bank indebtedness	**—**	2,625
Trade payables and other amounts	**68,902**	62,599
Finance lease liability	**228**	265
Convertible borrowings	**40,803**	39,724
Revolving Facility	**26,785**	22,741
Preferred partnership units	**35,500**	35,500

The fair value of the second lien senior secured notes at March 31, 2014 is $183,753 and has a carrying value of $195,305. 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 1.84%

(in thousands of Canadian dollars)

16. Commitments

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

	March 31, 2014	December 31, 2013
	$	$
Less than one year	**13,997**	14,218
Between one and five years	**41,903**	41,668
More than five years	**14,452**	15,662
Total	**70,352**	71,548

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.

17. 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)

18. 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 four reportable operating segments, as discussed in note 1, referred to as: (i) Rehabilitation and Wellness; ii) Pharmacy; (iii) Retail and Home Medical Equipment; and (iv) 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, advisory fees and acquisition-related services provided by independent third parties have been reported in the Corporate reportable segment.

	As at and for the three month period ended March 31, 2014					
	Rehabilitation and Wellness $	**Pharmacy $**	**Retail & Home Medical Equipment $**	**Surgical and Medical $**	**Corporate $**	**Total $**
Revenue	48,367	27,611	25,217	9,131	—	**110,326**
Depreciation and amortization	3,936	1,745	1,700	840	138	**8,359**
Interest expense	—	—	—	—	8,271	**8,271**
Income (loss) before interest expense and income taxes[9]	2,378	1,755	(2,546)	(195)	(21,010)	**(19,618)**
Capital expenditures	508	445	548	510	100	**2,111**
Goodwill	105,063	30,802	5,574	13,398	—	**154,837**
Total assets	190,152	69,191	72,471	27,792	6,805	**366,411**
Total liabilities	20,498	13,552	18,178	7,986	318,922	**379,136**

[9] Included in the income before interest expense and income taxes for the Corporate segment are $17 of non-cash gains from the net decrease in the fair value of the contingent consideration liability for the period, $1,383 in transaction and restructuring costs, $16,494 of non-cash impairments and $393 of non-cash gains from the change in fair value of derivative financial instruments.

	As at and for the three month period ended March 31, 2013					
	Rehabilitation and Wellness $	**Pharmacy $**	**Retail & Home Medical Equipment $**	**Surgical and Medical $**	**Corporate $**	**Total $**
Revenue	52,925	24,278	28,679	7,399	—	**113,281**
Depreciation and amortization	4,417	1,735	1,586	728	95	**8,561**
Interest expense	—	—	—	—	6,918	**6,918**
Income (loss) before interest expense and income taxes (restated - note 20)[11]	3,382	739	(1,791)	(322)	5,793	**7,801**
Capital expenditures	551	673	372	329	222	**2,147**
Goodwill	147,898	30,802	20,555	14,114	—	**213,369**
Total assets	260,542	72,642	100,818	29,503	20,449	**483,954**
Total liabilities	14,284	10,301	11,119	4,975	341,273	**381,952**

[11] Included in the income before interest expense and income taxes for the Corporate segment is $6,945 of a non-cash gain from the net decrease in the fair value of the contingent consideration liability for the period, $523 in transaction and restructuring costs and $3,886 of non-cash gains from the change in fair value of the derivative financial instrument.

(in thousands of Canadian dollars)

19. Supplementary Disclosure to the Consolidated Statements of Cash Flows

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

	For the three month periods ended March 31,	
	2014	2013 (Restated - note 20)
	$	$
Trade and other receivables	**887**	(5,752)
Inventories	**(1,008)**	83
Prepaid expenses	**(222)**	(358)
Trade payables and other amounts	**1,143**	(1,448)
	800	(7,475)

20. Comparative Figures

As part of the year end financial statement close process for the year ended December 31, 2013, the Company's Motion Specialties operations performed an inventory count and valuation. Upon the completion of the inventory count and inventory valuation, an adjustment of $1,915 ($1,408 net of income taxes) was recorded for the three month period ended March 31, 2013 which reduced inventory and increased cost of healthcare services and supplies. These adjustments decreased basic EPS for the three month period ended March 31, 2013 to $0.02 per share from $0.04 which was previously reported. Diluted EPS for the three month period ended March 31, 2013 did not change as a result of these adjustments.

For the three month period ended March 31, 2014, the Company has amended its tracking and presentation of labour costs. The tracking and presentation has been updated as part of the Company's implementation of a new budgeting process in 2014 which enhances the tracking of direct and indirect labour costs. As a result, the Company has re-classified certain balances for the three month period ended March 31, 2013 in order to conform with the presentation in the current year. These reclassifications results in a decrease to employee costs of $10,553, an increase of cost of healthcare services of $9,888 and an increase of corporate office expenses of $665 for the three month period ended March 31, 2013.

21. Subsequent Events

In April 2014, the Company determined that it would cease operations at the Company's surgical location in Sarnia, Ontario effective April 30, 2014.

On May 2, 2014, the Company announced that it expects to complete the sale of 100% of the common shares of its home care business, CAR, to an arm’s length third party purchaser, LifeSpan Health and Wellness Limited ("LifeSpan") for proceeds of $2.5 million, subject to certain adjustments, on or about May 8, 2014. The purchase price will be satisfied by the issuance of an eight-year note. The note bears interest at 7% per annum, payable monthly.

21. Subsequent Events - continued

On May 2, 2014, the Company announced that a non-binding letter of intent to sell 100% of the common shares of its seniors wellness business, Active Health Services Limited ("Active"), to an arm's length third party purchaser, LifeSpan, for proceeds of $12.0 million, subject to certain adjustments. The purchase price will be satisfied by the issuance of an eight-year note. The note will bear interest at 7% per annum, payable monthly. The transaction is expected to close, on or about May 8, 2014.