Centric Health

Your Care. Our Focus.

Management's Discussion and Analysis
For the three and six month periods ended June 30, 2019 and 2018

Dated: August 14, 2019

Index

Management's Discussion and Analysis

(For the three and six month periods ended June 30, 2019 and 2018)

Certain statements in this Management's Discussion and Analysis ("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 "*Strategic Priorities*", "*Growth Strategies and Outlook*" and "*Risks and Uncertainties*" and other statements concerning Centric Health Corporation's, ("Centric Health", "Centric" or the "Company") 2019 objectives, strategies to achieve those objectives, Adjusted EBITDA Margin projections, 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 Company's liquidity and capital requirements, government regulation and funding, the highly competitive nature of the Company's industry, reliance on contracts with key customers and other such risk factors described below under the heading "*Risks and Uncertainties*" and 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 statements contained in this MD&A are based on 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 statement of financial position and the consolidated statement of income and comprehensive income of the Company for the three and six month periods ended June 30, 2019 and 2018 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 condensed interim consolidated financial statements and notes thereto for the three and six month periods ended June 30, 2019 and 2018. The unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2019 and 2018 are prepared in accordance with IAS 34 *Interim Financial Reporting* as outlined by International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"). The Company's significant accounting policies are summarized in detail in note 2 of the consolidated financial statements for the year ended December 31, 2018. Unless otherwise specified, amounts reported in this MD&A are in millions, except shares and per share amounts and percentages. The following MD&A is presented as of August 14, 2019. 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.

Our Business

Centric Health's vision is to be the leading provider of pharmacy and other healthcare services to Canadian seniors.

The Company is one of Canada's leading and most trusted providers of comprehensive Specialty Pharmacy services and solutions to seniors. We operate a large national network of pharmacy fulfilment centres that deliver high-volume solutions for the cost-effective supply of chronic medication and other specialty clinical pharmacy services. Our pharmacies serve more than 31,000 residents in over 460 seniors communities (long-term care, retirement homes, and assisted living facilities) nationally.

With services that address the growing demand within the Canadian healthcare system, Centric Health's unparalleled national care delivery platform provides significant potential for future expansion and growth.

Our long-term strategy focuses on delivering organic growth, pursuing geographic expansion and M&A opportunities, and broadening our portfolio of service offerings in the seniors healthcare space.

Our dedicated team and organizational culture has an unwavering commitment to achieving the highest service and ethical standards and delivering a superior quality of care to seniors. ***This is our unique brand of care.***

Your Care. Our Focus.

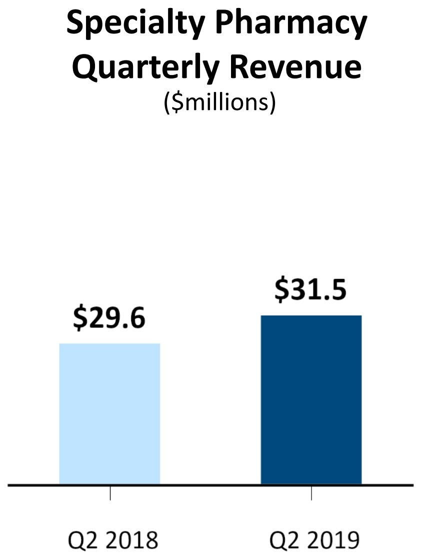
14 fulfilment centres

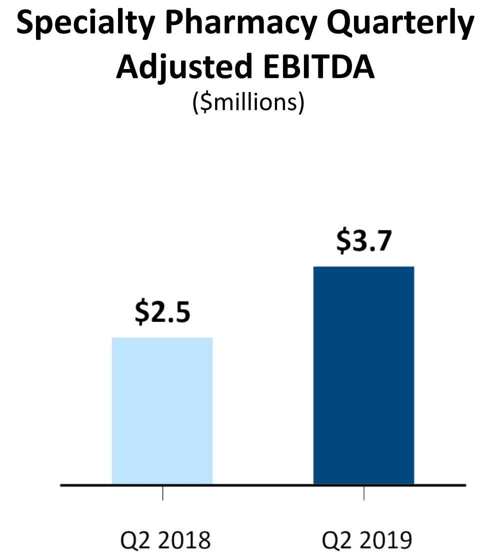
>460 long-term care and retirement homes

>31,000 beds

>900,000 prescriptions monthly

Highlights for the Three and Six Month Periods Ended June 30, 2019





Highlights for the Second Quarter of 2019

(All comparative figures are for the second quarter of 2018)

- **Specialty Pharmacy Revenue and Adjusted EBITDA[1] from continuing operations increased 6.5% to $31.5 million and 50.5% to $3.7 million, respectively, for the three month period ended June 30, 2019, compared to $29.6 million and $2.5 million in the same period in the prior year**
  - Growth was driven by an increase in the average number of beds serviced in the quarter, and the impact of the Business Re-Engineering Plan that was executed during the second half of 2018;
  - The results for the second quarter of 2019 include an increase to Adjusted EBITDA for Specialty Pharmacy of $0.4 million as a result of the Company's adoption of IFRS 16 *Leases,* effective January 1, 2019;
  - Going forward, the Company expects Specialty Pharmacy will continue to generate double-digit Adjusted EBITDA margins, excluding the impact of IFRS 16; and
  - Before and after the impact of the adoption of IFRS 16, Adjusted EBITDA margin in Specialty Pharmacy was 10.4% and 11.8%, respectively, for the second quarter of 2019.
- **Entered into agreement to sell the Surgical and Medical Centres business for $35.0 million**
  - Subsequent to the second quarter of 2019, the Company signed a definitive agreement to sell the Surgical and Medical Centres business to the Kensington Private Equity Fund for a cash purchase price of $35.0 million;
  - The transaction is expected to close on or about September 30, 2019, subject to satisfying customary closing conditions; and
  - Net proceeds from the sale will be used to repay a portion of the Credit Facilities.
- **Added new customers and increased beds serviced**
  - Beds onboarded during the second quarter of 2019 from new contract wins as well as a full quarter's impact of beds onboarded throughout the first quarter of 2019 increased the average number of beds serviced in Specialty Pharmacy by 3.0% and by 9.6% to 31,265 beds nationally from 30,341 beds in the first quarter of 2019 and 28,537 beds in the second quarter of 2018, respectively; and
  - Newly serviced beds will leverage existing operational infrastructure and capacities within each respective province.
- **AceAge Inc. ("AceAge") received an initial purchase order for 6,000 Karie devices in the European market, further validating global demand for the device**
  - AceAge signed a distribution agreement with a European partner that is a leader in the home and seniors healthcare services market; and
  - The distribution agreement includes an initial purchase order of 6,000 Karie devices, with deliveries commencing in the fourth quarter of 2019.

- **Reached an arrangement with senior and subordinated lenders to facilitate covenant compliance through the transition period as the Company executes on its strategic direction**
  - Received a covenant waiver for the second quarter of 2019;
  - Established revised financial covenants based on financial targets derived from the results of a review by an independent third-party and approved by lenders;
  - Revised timing of certain payments on senior and subordinated debt facilities with accrued interest and fees to be settled through the proceeds from future divestiture activities; and
  - The Revolving Facility was temporarily reduced to $18.0 million and the Acquisition Facility was permanently reduced to $4.8 million.

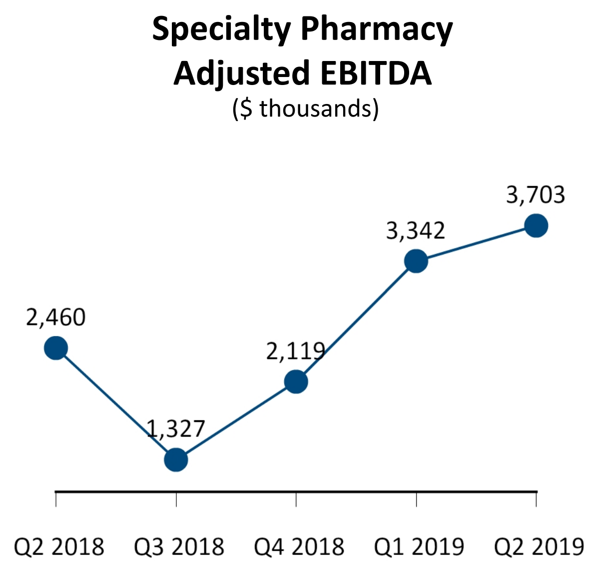
Highlights for the First Six Months of 2019

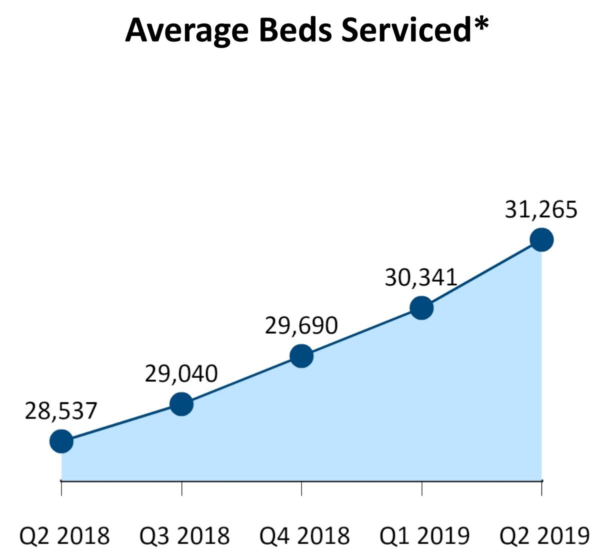
(All comparative figures are for the first six months of 2018)

- **Specialty Pharmacy Revenue from continuing operations remained flat at $61.0 million compared to $61.1 million in the same period in the prior year**
  - After posting negative revenue growth in the first quarter because of the 2018 regulatory changes, the Company delivered solid growth in the second quarter driven by an increase in average number of beds serviced compared to the prior year, as well as the impact of revenue initiatives from the Business Re-Engineering Plan.
- **Specialty Pharmacy Adjusted EBITDA from continuing operations increased 21.5% to $7.0 million from $5.8 million**
  - Adjusted EBITDA increased to $7.0 million, notwithstanding the regulatory changes that occurred during the second quarter of 2018, primarily driven by an increase in the average number of beds serviced and Business Re-Engineering Plan initiatives that were implemented throughout the year;
  - The improvement in Adjusted EBITDA for Specialty Pharmacy is also partially attributable to a $0.8 million increase as a result of the Company's adoption of IFRS 16 *Leases,* effective January 1, 2019; and
  - Before and after the impact of the adoption of IFRS 16, Adjusted EBITDA margin in Specialty Pharmacy was 10.2% and 11.5%, respectively, for the first six months of 2019 compared to 9.5% in the same period in the prior year.
- **Continued execution of deleveraging plan and new strategic direction to establish the Company as the leading provider of pharmacy and other healthcare services to Canadian seniors**
  - Divested the Company's retail pharmacy operation located in Medicine Hat, AB on February 14, 2019;
  - Issued 30,000,000 convertible preferred shares of the Company on March 12, 2019 at an issue price of $0.40 per share for a gross proceeds of $12.0 million to funds and accounts managed by Ewing Morris & Co. Investment Partners Ltd. ("Ewing Morris"); and
  - Divested the Company's retail pharmacy operation located in Grande Prairie, AB on June 24, 2019.
- **Completed transition to IFRS 16 *Leases* effective January 1, 2019**
  - Adopted using modified retrospective approach;
  - Substantial change to lease accounting standards, requiring single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases; and
  - Resulted in an overall increase to total Adjusted EBITDA from continuing operations of $1.0 million for the six month period ended June 30, 2019.

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

Key Performance Metrics - Second Quarter of 2019





*Average beds serviced includes a restatement of previously reported numbers to reflect the impact of discontinued operations for retail pharmacies that were divested in 2019.

The Company uses a number of financial and non-financial metrics to assess its performance. The table below summarizes our most relevant metrics. The full results and discussion of each metric are subsequently presented in this report.

Growth	Total Revenue	● (Stable)
	Beds Serviced	● (Favourable)
Profitability	Adjusted EBITDA	● (Favourable)
	Adjusted EBITDA Margin	● (Favourable)
Quality	Reported incidents	● (Favourable)
Liquidity	Cash Flows from Operations	● (Stable)
	Net Debt to Adjusted EBITDA	● (Unfavourable)
	Free Cash Flow	● (Unfavourable)

● = Favourable ● = Stable ● = Unfavourable

Strategic Priorities

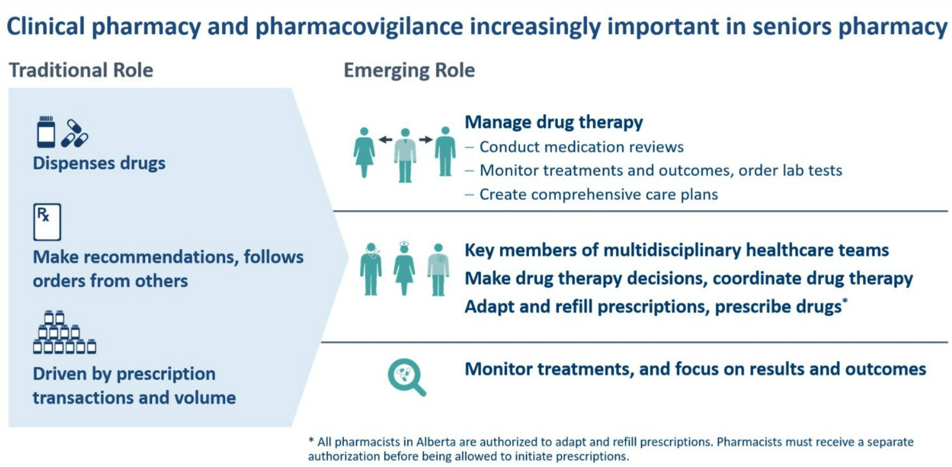
1. **Reduce debt and strengthen balance sheet**
   - Reduction of total debt to Adjusted EBITDA over the medium term
   - Utilize effective working capital management to improve cash flows
2. **Grow organically**
   - Leverage the Company's value proposition with seniors to win new contracts
   - Expand scope of services to utilize existing customer base and attract new customers
   - Maximize scale and efficiencies at existing facilities
3. **Make strategic acquisitions**
   - Pursue opportunities that will strengthen value proposition and expand national platform, achieving operational efficiencies through increased scale and consolidation of acquisitions
   - Apply strict criteria to ensure alignment, accretion and return on invested capital
4. **Improve business operations**
   - Optimize labour models and rely on innovative technology and economies of scale to drive efficiencies
   - Maintain standards of exceptional care
   - Manage costs at corporate office to ensure a lean shared service model and maximize overall profitability
   - Enhance quality reporting metrics that demonstrate value to customers with emphasis on best healthcare outcomes

Growth Strategies and Outlook

Centric Health is pursuing a multi-faceted growth strategy to increase revenue and expand Adjusted EBITDA margins through the diversification of its offerings and leveraging its best-in-class platform to offer the highest levels of service to more Canadians, with a focus on the following areas:

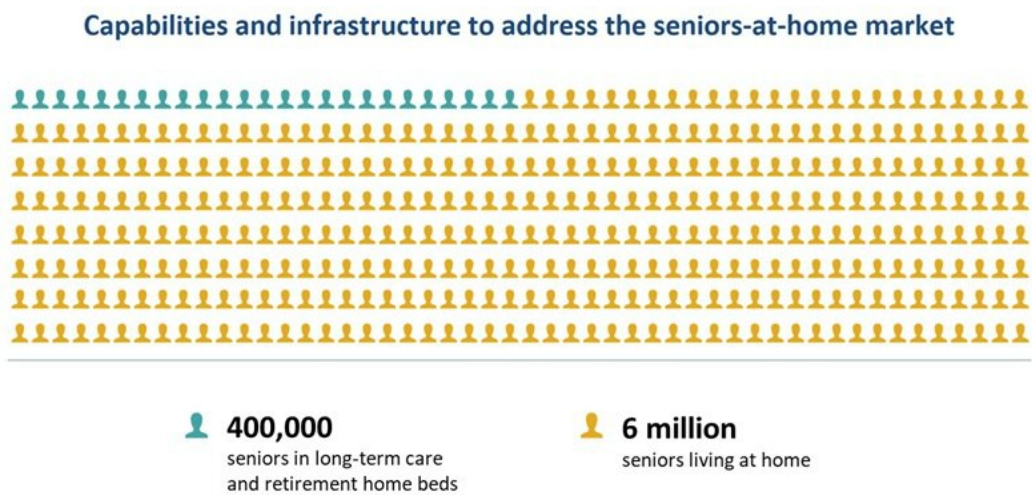
- Maximize utilization of its existing infrastructure through new RFP wins with local, regional and national seniors community operators;
- Expand clinical capabilities to strengthen its value proposition to its customers and drive new, higher margin revenue streams;
- Execute on strategic acquisition opportunities to expand its network and geographic coverage and benefit from economies of scale;
- Increase product and service offerings to seniors; and
- Reduce cost structure and benefit from economies of scale.

Given the public funding model and limited payor base for its Specialty Pharmacy services, the Company is actively pursuing strategies to mitigate its exposure to government regulatory changes and geographic concentration by diversifying its product and service offerings, entering into new geographies and expanding its payor base.



To meet the growing demands of the Canadian healthcare system, the scope of practice of pharmacists continues to broaden, presenting an opportunity for the Company to expand its service offerings.

A longer term opportunity is also available through serving the needs of seniors remaining in their homes.



With six million seniors already currently living at home, coupled with the increased life expectancy of Canadians, a significant favourable demographic trend exists for Specialty Pharmacy.

To pursue the opportunities provided by these demographic trends, and in line with its desire to expand its product and service offerings to seniors, the Company signed a strategic distribution and supply agreement and made an accompanying strategic investment in AceAge for its home-based automated drug delivery appliance, Karie.

Designed for individuals taking multiple medications, particularly seniors living independently or without full-time care, Karie is an innovative device that simplifies complex medication regimes by automatically delivering prescription drugs, in the correct dosage and at the right time. As the device is completely compatible with the Company's automated dispensing and packaging systems, this partnership will provide the Company with opportunities for additional Specialty Pharmacy service offerings to seniors living in the Company's contracted seniors communities as well as those living in their own homes.

To further enhance and diversify its service offerings, the Company has also developed a medical cannabis strategy within the seniors communities that it serves. The Company is uniquely positioned through its presence in long-term care and retirement homes, as well as its expansion to seniors currently living at home, to provide a comprehensive service that addresses the complexities of medical cannabis use by seniors. The Company continues to partner with home operators and leverage its strategic partnership with Canopy to achieve the best possible solutions for the seniors that it serves. The Company has applied for a cannabis sales-only license in Canada, and through Canopy, will be able to facilitate the supply of medical cannabis to seniors before and after receipt of the license.

In pursuit of reductions to its cost structure and increases in operational efficiency, the Company has partnered with Think Research Corporation to digitize the Company's medication review program, which will eliminate paperwork duplication in the pharmacy clinical review process while increasing seniors' safety through access to real-time information and data analytics.

Selected Financial Information

The following selected financial information as at and for the three and six month periods ended June 30, 2019, 2018, and 2017, have been derived from the consolidated financial statements 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 Reconciliation of Non-IFRS Measures section.

	For the three month periods ended June 30,			For the six month periods ended June 30,		
	2019	2018	2017	**2019**	2018	2017
(thousands of Canadian Dollars)	**$**	$	$	**$**	$	$
Revenue from continuing operations	**31,490**	29,555	29,385	**61,023**	61,143	60,314
Operating loss from continuing operations	**(1,128)**	(1,927)	(536)	**(2,626)**	(2,653)	(1,209)
Income (loss) from continuing operations before interest expense and income taxes	**671**	(19,555)	453	**(1,552)**	(20,494)	588
EBITDA[2] from continuing operations	**2,956**	(17,780)	2,285	**2,941**	(16,865)	(4,181)
Adjusted EBITDA[2] from continuing operations	**2,242**	1,025	2,753	**4,101**	3,109	5,826
Per share - Basic and diluted[3]	**$0.01**	$0.01	$0.01	**$0.02**	$0.02	$0.03
Adjusted EBITDA Margin from continuing operations	**7.1%**	3.5%	9.4%	**6.7%**	5.1%	9.7%
Adjusted EBITDA[2]	**3,548**	3,409	4,915	**6,688**	7,234	9,371
Per share - Basic and diluted[3]	**$0.02**	$0.02	$0.02	**$0.03**	$0.04	$0.05
Adjusted EBITDA Margin	**8.3%**	7.8%	11.5%	**8.0%**	8.2%	10.8%
Net income (loss)	**(1,596)**	(20,693)	2,600	**(6,867)**	(22,546)	(1,270)
Per share - Basic and diluted[3]	**($0.01)**	($0.10)	$0.01	**($0.04)**	($0.11)	($0.01)
Cash provided by operations	**93**	6,029	8,732	**2,640**	5,713	9,846
Total assets	**132,783**	121,684	142,978	**132,783**	121,684	142,978
Total liabilities	**148,738**	122,894	126,550	**148,738**	122,894	126,550

[2] *Defined in Reconciliation of Non-IFRS Measures*

[3] *Earnings per share is based on the earnings attributable to shareholders of Centric Health Corporation.*

Results of Continuing Operations for the Three and Six Month Periods Ended June 30, 2019 and 2018

Operating and Other Expenses as a Percentage of Revenue

	For the three month periods ended June 30,				For the six month periods ended June 30,			
	2019		2018		**2019**		**2018**	
(millions of Canadian dollars)	**$**	**%**	$	%	**$**	**%**	$	%
Revenue	**31.5**	**100 %**	29.6	100 %	**61.0**	**100 %**	61.1	100 %
Operating expenses:								
Healthcare services and supplies	**21.7**	**68.9 %**	20.7	69.9 %	**42.0**	**68.9 %**	42.4	69.4 %
Employee costs	**2.8**	**8.9 %**	3.2	10.8 %	**5.6**	**9.2 %**	6.3	10.3 %
Other operating expenses	**3.3**	**10.5 %**	3.2	10.8 %	**6.4**	**10.5 %**	6.7	11.0 %
Corporate office expenses	**1.5**	**4.8 %**	1.4	4.7 %	**2.9**	**4.8 %**	2.7	4.4 %
Total operating expenses	**29.3**	**93.1 %**	28.5	96.2 %	**56.9**	**93.4 %**	58.1	95.1 %
Other expenses:								
Depreciation and amortization	**2.3**	**7.3 %**	1.8	6.1 %	**4.5**	**7.4 %**	3.6	5.9 %
Share-based compensation expense	**0.4**	**1.3 %**	0.3	1.0 %	**0.9**	**1.5 %**	0.7	1.1 %
Transactions, restructuring and other costs	**0.7**	**2.2 %**	0.9	3.0 %	**1.4**	**2.3 %**	1.4	2.3 %
Goodwill impairment	**—**	**— %**	17.0	57.4 %	**—**	**— %**	17.0	27.8 %
Net interest expense	**3.2**	**10.2 %**	1.8	6.1 %	**6.0**	**9.8 %**	3.5	5.7 %
Income tax expense (recovery)	**(1.0)**	**(3.2) %**	(1.1)	(3.7) %	**0.2**	**0.3 %**	(1.0)	(1.6) %
Total other expenses	**5.6**	**17.8 %**	20.7	69.9 %	**13.0**	**21.3 %**	25.2	41.2 %
Adjusted EBITDA	**2.2**	**7.1 %**	1.0	3.5 %	**4.1**	**6.7 %**	3.1	5.1 %

The Company's results for the three and six month periods ended June 30, 2019 include the impact of its transition to IFRS 16 *Leases*, a substantial change to the lease accounting standards, effective January 1, 2019. The Company adopted IFRS 16, using the modified retrospective approach and as a result, the Company's comparative information was not restated. As a result, the comparability of the Company's 2019 Adjusted EBITDA to periods prior to January 1, 2019 is impacted.

The overall impact to Adjusted EBITDA from continuing operations from the Company's adoption of IFRS 16 for the three and six month periods ended June 30, 2019 was an increase of $0.5 million and $1.0 million, respectively. Refer to note 2 of the unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2019 for further details regarding the Company's adoption of this new accounting standard.

Revenue from continuing operations for the three and six month periods ended June 30, 2019 increased by 6.5% to $31.5 million from $29.6 million and decreased by 0.2% to $61.0 million from $61.1 million, respectively, for the same periods in the prior year.

- The revenue increase for the three month period ended June 30, 2019 was due to growth driven by an increase in the average number of beds serviced and revenue initiatives implemented as part of the Company's Business Re-Engineering Plan.
- Revenue for the six month period ended June 30, 2019 was in line with revenue for the same period in the prior year primarily due to the fact that the first quarter of 2018 was the last quarter before the regulatory changes that occurred in the prior year came into effect. The revenue impact of these regulatory changes was offset by growth driven by an increase in the average number of beds serviced and revenue initiatives implemented as part of the Company's Business Re-Engineering Plan.
- Going forward, the Company expects continued organic growth in revenue; however, the timing and cycles of the contract procurement process (and time required to realize revenue from formal procurement RFP processes),

could result in some fluctuation of organic growth rates over time.

Operating expenses consist of four major components:

- healthcare services and supplies, which includes the salaries and benefits of employees directly involved in the provision of services, practitioner consultant fees, the cost of medical supplies and the cost of pharmaceuticals sold;
- employee costs, which includes salaries and benefits of employees that are not directly involved in the provision of services;
- other operating expenses, which includes occupancy costs, communication, insurance, advertising and promotion and administrative expenses incurred at the operational level; and,
- corporate office expenses, which includes shared service costs, salaries and benefits, occupancy costs, communication, advertising and promotion, insurance, public company costs, board of directors and sub-committee fees and other costs of the corporate office.

- Overall operating expenses for the three and six month periods ended June 30, 2019 increased by 2.5% to $29.3 million as compared to $28.5 million and decreased by 2.0% to $56.9 million as compared to $58.1 million, respectively, for the same periods in the prior year.
- Cost of healthcare services and supplies for the three month period ended June 30, 2019 increased by 4.8% to $21.7 million as compared to $20.7 million for the same period in the prior year, largely due to an increase in the average number of beds serviced, partially offset by labour efficiencies achieved as a result of the Business Re-Engineering Plan.
- Cost of healthcare services and supplies for the six month period ended June 30, 2019 decreased by 0.9% to $42.0 million as compared to $42.4 million for the same period in the prior year, due to labour efficiencies achieved as well as decreased pharmaceutical costs as a result of the regulatory changes impacting the pricing of certain generic drugs in 2018 which was partially offset by an increase in pharmaceutical costs driven by the increase in the average number of beds serviced.
- Employee expenses for the three and six month periods ended June 30, 2019 decreased by 11.6% to $2.8 million as compared to $3.2 million and by 12.2% to $5.6 million as compared to $6.3 million, respectively, for the same periods in the prior year, largely due to labour efficiencies driven by the Business Re-Engineering Plan initiatives.

Corporate office expenses for the three and six month periods ended June 30, 2019 increased by 2.0% to $1.5 million as compared to $1.4 million and by 9.6% to $2.9 million as compared to $2.7 million, respectively, for the same periods in the prior year. The increase compared to the same periods in the prior year were primarily due to executive position vacancies in the prior year.

Transaction, restructuring and other costs includes legal, consulting and due diligence fees directly related to business combinations or business restructuring, and costs associated with new customer contract implementation, as well as severance costs, start-up costs for new initiatives and legal and consulting costs for business restructuring.

- Transaction, restructuring and other costs for the three month period ended June 30, 2019 decreased by 22.1% to $0.7 million as compared to $0.9 million for the same period in the prior year and were flat at $1.4 million for the six month period ended June 30, 2019 as compared to the same period in the prior year.

Interest expense for the three and six month periods ended June 30, 2019 was $3.2 million as compared to $1.8 million and $6.0 million as compared to $3.5 million, respectively, for the same periods in the prior year. Interest expense relates to the Company's borrowings and finance leases. Interest expense excluding accretion for the three and six month periods ended June 30, 2019 was $2.6 million as compared to $1.6 million and $5.1 million as compared to $3.1 million, respectively, in the same periods in the prior year.

Income tax recovery for the three month period ended June 30, 2019 was $1.0 million as compared to $1.1 million for the same period in the prior year and for the six month period ended June 30, 2019, income tax expense was $0.2 million as compared to a recovery of $1.0 million, for the same period in the prior year. As at June 30, 2019 and December 31, 2018, the Company had gross loss carry forwards amounting to $44.6 million and $36.6 million, respectively, that can be carried forward against future taxable income 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 did not recognize deferred tax assets of $8.9 million ($9.6 million as of December 31, 2018) with respect to these losses.

Revenue and Adjusted EBITDA

This section presents the results of operations for the three and six month periods ended June 30, 2019 and 2018 for the Company's sole operating segment, Specialty Pharmacy, as well as Corporate office costs.

The support services provided through the Corporate office largely support the operations of the Company. Certain amounts of these costs have been allocated to Specialty Pharmacy and operations included in discontinued operations based on the extent of corporate management's involvement in the operations of the those businesses during the period.

For the three month periods ended June 30,	Revenue		Adjusted EBITDA			
	2019	2018	**2019**		2018	
(thousands of Canadian Dollars)	**$**	$	**$**	**%**	$	%
Specialty Pharmacy	**31,490**	29,555	**3,703**	**11.8**	2,461	8.3
Corporate	**—**	—	**(1,461)**	**—**	(1,436)	—
Total	**31,490**	29,555	**2,242**	**7.1**	1,025	3.5

For the six month periods ended June 30,	Revenue		Adjusted EBITDA			
	2019	2018	**2019**		2018	
(thousands of Canadian Dollars)	**$**	$	**$**	**%**	$	%
Specialty Pharmacy	**61,023**	61,143	**7,045**	**11.5**	5,796	9.5
Corporate	**—**	—	**(2,944)**	**—**	(2,687)	—
Total	**61,023**	61,143	**4,101**	**6.7**	3,109	5.1

Specialty Pharmacy

Three month period ended June 30, 2019:

- Revenue increased 6.5% to $31.5 million as compared to $29.6 million for the same period in the prior year.
- Adjusted EBITDA increased by 50.5% to $3.7 million as compared to $2.5 million for the same period in the prior year and Adjusted EBITDA margin increased to 11.8% from 8.3%.

Six month period ended June 30, 2019:

- Revenue was flat at $61.0 million as compared to $61.1 million for the same period in the prior year.
- Adjusted EBITDA increased by 21.5% to $7.0 million as compared to $5.8 million for the same period in the prior year and Adjusted EBITDA margin increased to 11.5% from 9.5%.

For the three month period ended June 30, 2019, the revenue increase compared to the same period in the prior year was due to the increase in the average number of beds serviced in the second quarter of 2019 as well as the impact of revenue initiatives from the Business Re-Engineering Plan which together more than offset the impact of the regulatory changes that came into effect in second quarter of the prior year.

For the six month period ended June 30, 2019, the consistent revenue compared to the prior year was due to the fact that the regulatory changes that occurred in the prior year did not take effect until the second quarter. The impact of these regulatory changes to revenue was offset by the increase in the average number of beds serviced in the first six months of 2019 as well as the impact of revenue initiatives from the Business Re-Engineering Plan.

Compared to the same periods in the prior year, Adjusted EBITDA for the three and six month periods ended June 30, 2019 was positively affected by:

- The Business Re-Engineering Plan initiatives, together with an increase in the number of beds serviced, which offset the margin pressures caused by the regulatory changes;
- Operational efficiencies achieved through increased scale as a higher number of average beds were serviced compared to the prior period; and
- The impact of the transition to IFRS 16 of $0.4 million and $0.8 million for the three and six month periods ended June 30, 2019, respectively.

Corporate Office

Corporate office expenses increased for the three and six month periods ended June 30, 2019 compared to the same periods in the prior year due to labour savings incurred in the prior year as a result of vacant positions, partially offset by the impact of the transition to IFRS 16 of $0.1 million as compared to the same periods in the prior year.

Discontinued Operations

During the three and six month periods ended June 30, 2019, the Company disposed of the operating assets of its retail pharmacy operations in Grande Prairie, AB and Medicine Hat, AB. The results of these operations have been included as part of discontinued operations on the consolidated statement of income and comprehensive income. In addition, as required under IFRS, the Company classified its former Surgical and Medical Centres segment as assets held for sale and have presented its current and prior year results as discontinued operations. Revenue and Adjusted EBITDA from discontinued operations were $11.3 million and $1.3 million, for the three month period ended June 30, 2019, respectively. The impact of the transition to IFRS 16 in discontinued operations was an increase to Adjusted EBITDA of $0.4 million.

Liquidity and Capital Resources

Credit Facilities

The Company's credit facilities are with a syndicate of lenders comprised of three major Canadian banks and provided for credit facilities of up to an aggregate amount of $113.5 million. At inception, the credit facilities were made up of up to $100.0 million in senior secured facilities (the "Senior Facilities") and $13.5 million in a secured subordinated term credit facility (the "Subordinated Facility") (collectively, the "Credit Facilities").

All of the Credit Facilities are guaranteed by the Company's subsidiaries and secured by the assets of the Company and each of its subsidiaries.

At inception, the Senior Facilities were structured as follows: (i) a revolving credit facility in the amount of up to $20.0 million, including a swingline of up to $3.0 million ("Revolving Facility"), (ii) a non-revolving term loan facility in the amount of up to $60.0 million ("Term Facility"), and (iii) a limited revolving acquisition and capital expenditure term loan facility in the amount of up to $20.0 million to be available in multiple draws ("Acquisition Facility"). Subject to the satisfaction of certain conditions, the Revolving Facility may be increased by an additional $5.0 million. Following the May 30, 2019 amendment to the agreement for the Senior Facilities, the Revolving Facility was temporarily reduced to $18.0 million and the Acquisition Facility was permanently reduced to $4.8 million. All borrowings under the Senior Facilities mature five years after the date of the agreement.

Interest rates under the Senior Facilities vary based on the Company's total funded debt to EBITDA ratio with a range between 0.50% to 3.50% over the Canadian prime rate for prime rate loans and 2.00% to 5.00% over CDOR for Bankers' Acceptances and a range of 0.40% to 1.05% for standby fees for amounts not borrowed.

The Subordinated Facility consists of a term loan that was fully drawn in one advance for a total of $13.5 million, which accrues interest at a rate of 9% per annum. The Subordinated Facility matures five and a half years after the date of the agreement. On June 23, 2017, the Company prepaid $2.0 million of the principal balance along with a $20 thousand cash consent fee in accordance with the Subordinated Facility agreement. On June 29, 2018, as a result of an amendment to the Subordinated Facility agreement, the Company began accruing additional interest payable in kind of 1% per annum on a monthly basis towards the outstanding principal balance.

Going Concern and Liquidity Risk

On November 10, 2017, the Company amended its agreements for the Credit Facilities to increase the threshold on its debt to trailing twelve-month EBITDA covenants in order to mitigate potential future breaches of the financial covenants in the first half of 2018. On March 20, 2018 and June 29, 2018, the Company further amended its agreements for the Credit Facilities to increase the threshold on its debt to trailing twelve-month EBITDA covenant and decrease the threshold on its fixed-charge coverage ratio covenant. The amendments were made to the fourth quarter of 2017 and the first three quarters of 2018 due to non-compliance in those quarters due to timing differences in the transition between contracts and the delayed onboarding of beds from issues with a third-party supplier, as well as the impact of recent regulatory changes. On November 14, 2018, the Company received a covenant waiver for the third quarter of 2018 and further amended its agreements for the Credit Facilities such that interest owing on the Subordinated Facility would accrue for a period of up to six months and the Company would be subject to escalating increases in interest rates of 0.75% to 2.0% on its Senior Facilities and 2.5% to 5.0% on its Subordinated Facility, all of which would be payable and due on the earlier of the completion of a divestiture of its non-core assets or March 31, 2019.

On March 12, 2019, the Company received a covenant waiver for the fourth quarter of 2018 and amended its agreements for the Credit Facilities to revise its financial covenants for the fourth quarter of 2018 and first quarter of 2019 to financial targets established by a financial review by an independent third-party that was approved by the lenders. In addition to the revised financial covenants, the amendments also revised the payment of the accrued interest owing on the Senior Facilities and Subordinated Facility, such that half of the accrued interest, excluding any escalations in interest rates, on the Subordinated Facility would be payable on the issuance of the convertible preferred shares on March 12, 2019 as described below.

On May 30, 2019, the Company received a covenant waiver for the second quarter of 2019 and further amended its agreements for the Credit Facilities to revise its financial covenants for the second quarter of 2019 to financial targets consistent with the previous two quarters in addition to a further financial covenant based on the Company's cash flow forecasts. All payment dates related to the remaining accrued interest and fees owing on the Senior Facilities and Subordinated Facility were amended to align with the completion of a divestiture of remaining non-core assets.

There is no assurance that the lenders will provide additional relief of these covenants or that the Company could refinance or repay its Credit Facilities through new sources of financing in the event future breaches occur. These circumstances may cast significant doubt as to the Company's ability to continue as a going concern, and the ultimate appropriateness of the use of accounting principles applicable to a going concern.

In 2018, the Company was subject to two significant regulatory changes: (1) the pan-Canadian generic pharmaceuticals plan; and (2) The Government of Alberta funding framework for Pharmacists. These two regulatory changes have had a significant impact on operations and financial performance. During the prior year, Management initiated a plan to offset the impact of regulatory changes within Specialty Pharmacy, focused on re-engineering the businesses to achieve operational efficiencies through work flow improvements, enhanced labour models, expanding service and product offerings, identifying other revenue generating opportunities and utilization of technology for automating processes. One of these initiatives commenced in September 2018 when the Company entered into multi-year supply and service agreements with a preferred cannabis partner for the provision of medical cannabis, and, as consideration for being the preferred supplier, the Company received upfront cash that can be used for growth of the Specialty Pharmacy business. The remaining initiatives aimed at achieving operational efficiencies and expanding other revenue generating activities were completed by the end of the fourth quarter of 2018.

In the event these initiatives, combined with continued organic growth and management of working capital, do not generate sufficient cash flows from operations to meet its obligations as they come due, the Company may need to generate funds from other sources of financing or other strategic alternatives, including the sale of assets.

The Company is committed to executing on its operating plan and further reducing its leverage and, as such, continues its review and evaluation of strategic alternatives available to the Company that are in line with the Company's strategic direction. The Company retained a financial adviser to explore strategic opportunities, including divesting existing businesses and other non-core assets and recapitalization of the balance sheet through the issuance of additional equity, convertible debt or subordinated debt. All strategic alternatives being considered by the Company will be focused on further deleveraging the balance sheet and maximizing shareholder value.

As part of the execution of this strategy, on February 14, 2019 and June 23, 2019 the Company closed two sales of its retail pharmacy operations in Alberta in exchange for $2.3 million and $2.1 million in proceeds, respectively. In addition, the Company issued 30,000,000 convertible preferred shares on March 12, 2019 in exchange for $12.0 million in proceeds. Each convertible preferred share is entitled to receive a cumulative annual dividend of 9%, payable in arrears semi-annually. Each convertible preferred share is convertible into common shares at the holder's option on a one-for-one basis, and are redeemable at the Company's option in certain circumstances, subject to customary anti-dilution adjustments. The convertible preferred shares mature five years from the date of closing at which time each convertible preferred share will be redeemed by the Company for $0.40 plus any unpaid dividends. The Company continues to explore and execute on other strategic opportunities to further deleverage the balance sheet.

Subsequent to the end of the second quarter of 2019, on August 9, 2019, the Company signed a definitive agreement to sell the Surgical and Medical Centres business for a cash purchase price of $35.0 million. The transaction is expected to close on or about September 30, 2019, subject to satisfying customary closing conditions, including the receipt of applicable regulatory and other third party approvals. The net proceeds from the sale are expected to be used to repay a portion of the Credit Facilities.

There can be no assurance that: the Company will be successful in achieving the results as set out in its operating plan or generate sufficient cash flows from operations to meet its obligations as they come due throughout 2019; the Company will complete the execution of other strategic alternatives; the Company will meet conditions established by lenders in the amended agreements; or that the lenders will continue to amend the Credit Facilities to mitigate any future breaches of covenants. The Company's ability to continue as a going concern materially affects the measurement of many amounts related to the Company in the consolidated financial statements. These measurements could be materially different than currently presented.

Cash Flow

Cash flow activities for the six month period ended June 30, 2019 were as follows:

Cash provided by operating activities

Cash provided by operating activities was $2.6 million compared to $5.7 million in the same period in the prior year:

- Cash provided by operating activities in the current year compared to the same period in the prior year related to the timing of certain payments to suppliers that occurred in the prior year and timing of collections of receivables from customers.

- The Company has historically generated positive cash flows from operating activities and anticipates that these will continue to be positive going forward.

Cash provided by/used in investing activities

Cash provided by investing activities was $1.7 million compared to cash used in investing activities of $3.1 million in the same period in the prior year:

- Cash provided by investing activities in the current year related to the proceeds from the disposition of the assets of two retail pharmacy operations in Alberta, partially offset by purchases of property and equipment and intangible assets and payments of earn-outs related to historic acquisitions.

- Cash used in investing activities for the same period in the prior year related to purchases of property and equipment and intangible assets as well as payments made related to prior year acquisitions and an additional investment in AceAge.

Cash used in financing activities

Cash used in financing activities was $4.3 million compared to $2.6 million in the same period in the prior year:

- Cash used in financing activities in the current year related to payments of interest and repayments made on finance leases and the Credit Facilities, net of the proceeds from the issuance of the convertible preferred shares to Ewing Morris.

- Cash used in financing activities for the same period in the prior year related to payments of interest and repayments of borrowings offset by proceeds from warrants exercised and withdrawals from the Revolving and Acquisition Facilities.

Contractual Commitments

The Company's contractual commitments at June 30, 2019, are as follows:

	Total	2019	2020-2021	2022-2023	Thereafter
	$	$	$	$	$
Trade payables and other liabilities	**17.3**	17.3	—	—	—
Term Facility	**52.2**	52.2	—	—	—
Subordinated Facility	**11.6**	11.6	—	—	—
Acquisition Facility	**4.8**	4.8	—	—	—
Revolving Facility	**8.5**	8.5	—	—	—
Finance loans	**0.1**	—	0.1	—	—
Convertible preferred shares	**17.4**	0.5	2.2	2.2	12.5
Finance leases	**13.2**	1.1	4.2	3.4	4.5
Interest payments on borrowings	**20.9**	3.5	12.8	4.1	0.5
Contingent consideration	**5.7**	3.6	1.0	1.1	—
	151.7	**103.1**	**20.3**	**10.8**	**17.5**

The Company incurs interest on its Credit Facilities. Future interest to be paid on the Revolving Facility cannot be reasonably determined due to the ongoing fluctuation of the Revolving Facility balance. Interest rates under the Senior Facilities vary based on the Company's total funded debt to EBITDA ratio with a range between 0.50% to 3.50% over the Canadian prime rate for prime rate loans and 2.00% to 5.00% over CDOR for Bankers' Acceptances and a range of 0.40% to 1.05% for standby fees for amounts not borrowed.

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

Equity

As at June 30, 2019, the Company had total shares outstanding of 216,297,508. The outstanding shares include 4,554,232 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 and certain customers. 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 and restricted shares are not reflected in the shares reported on the Company's financial statements. Accordingly, for financial reporting purposes, the Company reported 211,743,276 common shares outstanding as at June 30, 2019 and 210,355,022 shares outstanding as at December 31, 2018.

	June 30, 2019	December 31, 2018
Common shares		
Balance, beginning of period	**210,355,022**	201,468,731
Issuance of common shares	**—**	5,225,616
Common shares released from escrow or issued from treasury for contingent consideration	**200,000**	833,332
Stock options, warrants and restricted share units exercised	**1,188,254**	2,427,343
Deferred consideration for acquisitions	**—**	400,000
Balance, end of period	**211,743,276**	210,355,022

Issuance of Deferred Stock-based Compensation

As at June 30, 2019, there were a total of 9,500,899 restricted share units ("RSUs") and deferred share units ("DSUs") outstanding to grant an equivalent number of common shares.

	June 30, 2019	December 31, 2018
RSUs and DSUs		
Balance, beginning of period	**6,045,903**	3,224,080
RSUs and DSUs granted	**4,643,250**	4,690,000
RSUs and DSUs released	**(1,188,254)**	(1,427,343)
RSUs and DSUs forfeited	**—**	(440,834)
Balance, end of period	**9,500,899**	6,045,903

Issuance of Warrants

As at June 30, 2019, there were 3,872,000 warrants outstanding at a weighted average exercise price of $0.66.

	June 30, 2019	December 31, 2018
Share purchase warrants		
Balance, beginning of period	**2,822,000**	2,972,000
Warrants granted	**1,050,000**	850,000
Warrants exercised	**—**	(1,000,000)
Balance, end of period	**3,872,000**	2,822,000
Exercisable, end of period	**2,950,000**	1,900,000

Issuance of Stock Options

As at June 30, 2019, there were a total of 1,807,500 options outstanding to purchase an equivalent number of common shares, with a weighted average exercise price of $0.40, expiring at various dates through 2021. The number of exercisable options at June 30, 2019, was 1,347,500 with a weighted average exercise price of $0.40.

	June 30, 2019	December 31, 2018
Common share options		
Balance, beginning of period	**1,838,750**	2,347,500
Options exercised	**—**	—
Options expired	**(11,250)**	(25,000)
Options canceled/forfeited	**(20,000)**	(483,750)
Balance, end of period	**1,807,500**	1,838,750
Exercisable, end of period	**1,347,500**	1,157,500

Should all outstanding options and warrants that were exercisable at June 30, 2019 be exercised, the Company would receive proceeds of $2.9 million.

As at the date of this report, August 14, 2019, the number of shares outstanding, including escrowed shares, is 216,572,343; the number of options outstanding is 1,807,500; the number of restricted share units and deferred share units outstanding is 9,326,064; and the number of warrants outstanding is 3,872,000. Included in the shares outstanding are 4,554,232 restricted shares, shares held in escrow, or in trust, that are not freely tradeable.

Transactions with Related Parties

A collective group of officers and directors own 77,871,702 common shares or approximately 36.0% of the issued and outstanding common shares of the Company as at June 30, 2019, of which Global Healthcare Investments and Solutions, Inc. ("GHIS") and entities controlled by and related to the shareholders of GHIS, own a significant portion. This ownership percentage disclosed assumes the issuance of 4,554,232 escrowed and restricted shares in the total common shares considered to be outstanding.

In addition, a director helps manage funds that own the convertible preferred shares issued through the private placement on March 12, 2019.

Related Party Transactions

In the normal course of operations, the Company may enter into certain related party transactions, which may include transactions entered into with Company directors and management. All related party transactions would be for consideration established with the related parties, generally on market terms, and approved by the independent non-executive directors of the Company, including the transactions described below.

One of the former Board members, who ceased to be a member of the Board during the three month period ended June 30, 2019, is assisting management on an interim basis. Included in the results for the three and six month periods ended June 30, 2019 are $45 thousand and $90 thousand, respectively (2018 - $45 thousand and $90 thousand) of consulting fees related to this arrangement. Included in trade payables and other liabilities as at June 30, 2019 is $15 thousand (December 31, 2018 - $15 thousand) due to the former Board member for consulting fees.

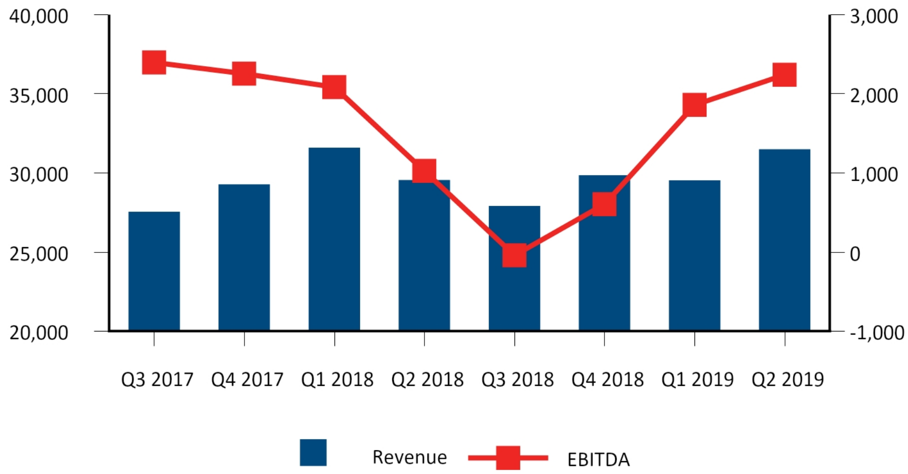
Summary of Quarterly Results

	Q2 2019[4] $	Q1 2019[4] $	Q4 2018[4,5] $	Q3 2018[4,5] $
(thousands of Canadian Dollars)				
Revenue from continuing operations	31,490	29,533	29,855	27,920
Adjusted EBITDA from continuing operations	2,242	1,859	605	(43)
Adjusted EBITDA per share from continuing operations				
Basic and diluted	$0.01	$0.01	$0.003	$(0.0002)
Net loss from continuing operations	(1,519)	(6,282)	(8,763)	(3,747)
Earnings per share from continuing operations				
Basic and diluted	$(0.01)	$(0.03)	$(0.04)	$(0.02)
Adjusted EBITDA	3,548	3,140	1,943	1,552
Adjusted EBITDA per share				
Basic and diluted	$0.02	$0.01	$0.01	$0.01
Net loss	(1,596)	(5,271)	(8,072)	(2,901)
Earnings per share				
Basic and diluted	$(0.01)	$(0.03)	$(0.04)	$(0.01)
	Q2 2018[4] $	**Q1 2018[4] $**	**Q4 2017[4] $**	**Q3 2017[4] $**
Revenue from continuing operations	29,555	31,588	29,283	27,547
Adjusted EBITDA from continuing operations	1,025	2,084	2,253	2,397
Adjusted EBITDA per share from continuing operations				
Basic and diluted	$0.01	$0.01	$0.01	$0.01
Net income (loss) from continuing operations	(20,238)	(2,739)	2,619	(868)
Earnings per share from continuing operations				
Basic and diluted	$(0.10)	$(0.01)	$0.013	$(0.004)
Adjusted EBITDA	3,409	3,825	4,058	4,084
Adjusted EBITDA per share				
Basic and diluted	$0.02	$0.02	$0.02	$0.02
Net income (loss)	(20,693)	(1,853)	3,301	248
Earnings per share				
Basic and diluted	$(0.10)	$(0.10)	$0.02	$0.001

[4] Revenue and Adjusted EBITDA from continuing operations includes a restatement of previously reported amounts in order to reflect the impact of discontinued operations for businesses that were divested in 2018 and 2019 as well as assets held for sale.

[5] Certain figures have been revised. Refer to note 18 of the June 30, 2019 unaudited condensed interim consolidated financial statements.

Revenue and Adjusted EBITDA from Continuing Operations by Quarter (in $000)



Throughout 2017, as a result of the timing of transitions of certain contracts, the Company experienced a decline throughout the first three quarters in revenue and Adjusted EBITDA. Following the third quarter of 2017, revenue returned to periods of growth in the fourth quarter of 2017 and first quarter of 2018, driven by the completion of the contract transitions as well as organic and acquired growth. During this period, Adjusted EBITDA continued to decline slightly as a result of excess labour costs due to labour inefficiencies and increased costs associated with the servicing of newly onboarded homes.

Beginning in the second quarter of 2018, the Company's revenue and Adjusted EBITDA decreased compared to the prior quarter primarily as a result of the regulatory changes in Alberta and nationally, which resulted in reductions to fee revenues earned in Alberta and the reduction in the prices of nearly 70 of the most commonly prescribed drugs in Canada were reduced by 25% to 40%, resulting in overall discounts of up to 90% off the price of their brand-name equivalent.

In the fourth quarter of 2018, the Company achieved quarter-over-quarter growth in revenue and Adjusted EBITDA as a result of cost savings and incremental revenues achieved through the Business Re-Engineering Plan as well as additional beds serviced during the quarter. This quarter-over-quarter growth in Adjusted EBITDA continued in the first quarter of 2019 as the number of beds serviced continued to increase and the full impact of cost savings measures from the Business Re-Engineering Plan were realized, in addition to the transitional impact of IFRS 16.

The Company achieved a third consecutive quarter of sequential growth in adjusted EBITDA in the second quarter of 2019 as it included a full quarter impact from the servicing of beds that were onboarded during the first quarter of 2019. New beds onboarded throughout the second quarter of 2019 further attributed to the quarter-over-quarter growth.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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

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

The Certifying Officers have concluded that, as at June 30, 2019, 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.

There have been no significant changes to the Company's ICFR for the period ended June 30, 2019, which has materially affected, or is reasonably likely to materially affect the Company's ICFR. Based on their evaluation of these controls for the period ended June 30, 2019, the CEO and CFO have also concluded that the Company's ICFR have been designed effectively to provide reasonable assurance regarding the reliability of the preparation and presentation of the financial statements for external purposes and that ICFR were effective as at June 30, 2019. The Company used the COSO control framework to evaluate DC&P and ICFR.

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

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes in line with International Financial Reporting Standards. Management is responsible for establishing and maintaining adequate ICFR appropriate to the nature and size of the Company. However, any system of ICFR has inherent limitations and can only provide reasonable assurance with respect to financial statement preparation and presentation.

In conjunction with the conversion to the new IFRS 16 *Leases,* the Company has determined that the adoption of this new accounting standards did not have a significant impact on its control environment.

Critical Accounting Policies and Estimates

Critical Accounting Policies

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and its interpretations as issued by the IASB that are effective for the year ended December 31, 2019.

With the exception of the new standards adopted by the Company described below, the Company's significant accounting policies are summarized in detail in note 2 of the consolidated financial statements for the year ended December 31, 2018.

New standards, amendments and interpretations adopted by the Company

The Company has initially adopted IFRS 16 *Leases* beginning January 1, 2019. A number of other amendments are also effective from January 1, 2019 but they do not have a material effect on the Company's financial statements.

IFRS 16 Leases

IFRS 16 *Leases* introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases for leases with terms of more than twelve months, unless the underlying asset is of low value. Lessor accounting for leases as finance and operating leases will remain substantially unchanged. The IASB issued the standard in 2016, replacing IAS 17 *Leases* and related interpretations.

The Company has adopted IFRS 16 using the modified retrospective method, without prior period comparatives restated, with the effect of initially applying this standard recognized at the date of initial application (i.e. January 1, 2019). Accordingly, the information presented for 2018 has not been restated - it is presented, as previously reported, under IAS 17 and related interpretations.

The adoption of IFRS 16 resulted in the recognition of right-of-use assets and lease liabilities of $8,767 and $9,023, respectively, in continuing operations as at January 1, 2019, with no net impact on retained earnings. In addition, deferred lease incentives were reduced to $nil as at January 1, 2019.

Refer to note 2 of the unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2019 for further details regarding the Company's adoption of this new accounting standard.

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, the recognition of contingent consideration, the valuation of deferred tax assets and tax provisions and the accounting for business combinations.

Collectability of Receivables

The Company assesses the collectability of receivables on an ongoing basis. A provision for the impairment of receivables involves management judgment and includes the review of individual receivables based on individual customer creditworthiness, current economic trends, forward-looking information 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 June 30 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.

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 acquired business 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 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 its valuation of deferred tax assets, the Company considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the period in which those temporary losses and tax loss carryforwards become deductible. The Company considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. The Company expects that future operations will generate sufficient taxable income to realize the deferred tax assets except for an unrecognized deferred tax asset of $8.9 million which the Company has not recorded at June 30, 2019.

Business Combinations

Upon the completion of business acquisitions, management's judgment is required to estimate the purchase price, and to identify and fair value all assets and liabilities acquired. The determination of the fair value of assets and liabilities acquired is based on management's estimates and certain assumptions generally included in a present value calculation of the related cash flows.

Leases

Management makes assumptions and estimations in the determination of the incremental borrowing rates used to calculate the present value of lease payments. In addition, the Company exercises judgment when assessing whether renewal options are reasonably certain to be exercised.

Revision of Prior Period Comparatives

A review of the Company's application of IFRS 9 on the modifications of its credit agreements was undertaken in the first quarter of 2019. Upon completing this review, the Company revised its December 31, 2018 comparative financial statements to reflect an understatement of its borrowing liability of $3.3 million as a result of overstatements to the unaccreted discounts on its Term Facility and Subordinated Facility. This understatement resulted in a corresponding understatement of interest expense (accretion expense) of $3.3 million, an understatement of deferred tax assets of $0.9 million and an associated understatement of income tax recoveries of $0.9 million.

The Company assessed the materiality of this adjustment and concluded that it was not material to any of the previously issued consolidated financial statements. As a result, the Company revised comparative balances in these statements for these changes. The factors that it considered when assessing materiality were that: the changes did not have an impact on the Credit Facilities; there was no impact to the Company's financial covenants; these adjustments were non-cash in nature; there were no changes to the consolidated statement of cash flows for the total impact on operating, investing and financing activities; there was no impact on the Company's assessment of going concern or classification of borrowings as a current liability; there was no impact to revenue; there was no impact to the January 1, 2018 opening balances; and there was no impact to management's compensation (i.e. performance targets). Refer to note 18 of the unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2019 for the impacts of this revision.

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).

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, the costs of administration and its debt and preferred share servicing obligations. 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 or preferred shares or other securities exchangeable for or convertible into common shares) to fund its working capital needs or 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 or a lack of investor demand, the ability of the Company to issue additional common shares or other securities exchangeable for or convertible into common shares may be restricted.

The Company currently has the Credit Facilities, pursuant to which it is subject to a number of affirmative and negative financial covenants. These include, but are not limited to, restrictions on incurring additional indebtedness, paying dividends or other distributions, making certain investments/ acquisitions, selling assets of the Company, conducting certain cannabis-related activities, payments on subordinated debt, the ability to pay earn-out obligations and the deferral of payment on certain interest and fees on the subordinated debt. The Credit Facilities also require the Company to dispose of certain non-core assets within an agreed-upon time frame to ensure the Company's deleveraging strategy is achieved in a timely manner and that it is able to maintain certain financial covenants in the Credit Facilities going forward. There can be no assurance that the Company will be successful in disposing these non-core assets within the timelines required under the Credit Facilities, or as may otherwise be agreed to by its lenders.

In addition, the Credit Facilities are collateralized by substantially all of the Company's assets. In the event of a default, including, among other things, a failure to make any payment when due or non-observance of any term of the agreements, all of the Company's obligations may immediately become due and payable, and the lenders would also be entitled to realize on their security and liquidate the assets of the Company. If the lenders under the Credit Facilities accelerate the repayment of borrowings, the Company cannot assure that it will have sufficient assets to repay the amounts outstanding, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has received a waiver for its financial covenants for the period ended June 30, 2019. Previously, management's forecasts projected that the Company would breach certain financial covenants of the Credit Facilities in the fourth quarter of 2018 and first quarter of 2019. The Company amended its agreements for the Credit Facilities in anticipation of forecasted breaches of the financial covenants during the fourth quarter of 2018 and the first quarter of 2019 and received waivers of the existing financial covenants and revised these to be based on financial targets established through a financial review by an independent third-party that was approved by the lenders. In addition to the revised financial targets, the amendments also revised the payment of the accrued interest owing on the Senior Facilities and Subordinated Facility, such that half of the accrued interest, excluding any escalations in interest rates, on the Subordinated Facility would be payable on the issuance of the convertible preferred shares on March 12, 2019 and the remaining accrued interest would be payable on the completion of the divestiture of remaining non-core assets. The interest owing on the Senior Facilities and Subordinated Facility was previously amended such that the Company would be subject to escalating increases in interest rates of 0.75% to 2.0% and 2.5% to 5.0%, respectively, all of which would be payable and due on the earlier of the completion of a divestiture of its non-core assets or March 31, 2019. On May 30, 2019, the Company received a covenant waiver for the second quarter of 2019 and further amended its agreements for the Credit Facilities to revise its financial covenants for the second quarter of 2019 to financial targets consistent with the previous two quarters in addition to a further financial covenant based on the Company's cash flow forecasts. In addition, the amendments also affected a temporary reduction in the Revolving Facility from $20 million to $18 million and a permanent reduction in the Acquisition Facility from $20 million to $4.8 million.

Management has planned and initiated to offset the impact of regulatory changes, focused on re-engineering the businesses to achieve operational efficiencies through work flow improvements, enhanced labour models, expanding service and product offerings, identifying other revenue generating opportunities and utilization of technology for automating processes. In the event these initiatives, combined with continued organic growth and management of working capital, do not generate sufficient cash flow from operations to meet its obligations as they come due, the Company may need to generate funds from other sources of financing or other strategic alternatives.

The Company is committed to executing on its operating plan and further reducing its leverage and, as such, continues its review and evaluation of strategic alternatives available to the Company that are in line with the Company's strategic direction. The Company will be exploring opportunities, including divesting existing businesses and other non-core assets and recapitalization of the balance sheet through the issuance of additional equity, convertible debt or subordinated debt. To date, these initiatives have included the divestiture of the Company's retail pharmacies located in Grande Prairie and Medicine Hat, Alberta, and the pending divestiture of its Surgical and Medical Centres business.

There can be no assurance that the Company will be successful in achieving the results as set out in its operating plan or generate sufficient cash flow from operations to meet its obligations as they come due throughout 2019, that the Company will complete the execution of its strategic alternatives, that the Company will meet conditions established by lenders in the amended agreements or that the senior lenders will continue to amend the Credit Facilities to mitigate any future breaches of covenants.

Cash Flow to Service Debt

The Company is highly leveraged. As at June 30, 2019, the Company had approximately $86.8 million of outstanding indebtedness. The Company currently estimates that, in absence of further deleveraging of its balance sheet, including through the proposed sale of its Surgical and Medical Centres business, its debt service for the next 12 months will be approximately $16.3 million, including required principal and interest payments and preferred share dividends. The Company's substantial indebtedness could have significant adverse consequences on the Company and its business, including: requiring a substantial portion of its cash flows to be dedicated to the payment of principal and interest on its indebtedness, therefore reducing its ability to use cash flows to fund its operations, capital expenditures and potential future business opportunities; making it more difficult for the Company to make payments on its indebtedness, which could result in an event of default under its Credit Facilities; limiting its ability to obtain additional financing; reducing the Company's flexibility in planning for, or reacting to, changes in its operations or business; prohibiting the Company from making strategic acquisitions, introducing new technologies or exploiting business opportunities; placing the Company at a competitive disadvantage as compared to its less-highly-leveraged competitors; and negatively affecting the Company's ability to renew key customer contracts. For additional information on the Company's outstanding long-term debt, see "Liquidity and Capital Resources".

Government Regulation and Funding

General Healthcare Regulation

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. In addition, the Company could incur significant costs in the course of complying with any changes in the regulatory regime. Non-compliance with any existing or proposed laws or regulations could result in audits, civil or regulatory proceedings, fines, penalties, injunctions, recalls or seizures, any of which could adversely affect the reputation, operations or financial performance of the Company.

Pharmacy Industry Regulation

The Company's core business is focused on the provision of specialty pharmacy services to seniors. The Company is reliant on prescription drug sales for a significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

Federal and provincial laws and regulations that establish public drug plans typically regulate prescription drug coverage, patient eligibility, pharmacy reimbursement, drug product eligibility and drug pricing and may also regulate manufacturer allowance funding that is provided to or received by pharmacy or pharmacy suppliers. With respect to pharmacy reimbursement, such laws and regulations typically regulate the allowable drug cost of a prescription drug product, the permitted mark-up on a prescription drug product, the professional or dispensing fees that may be charged on prescription drug sales to patients eligible under the public drug plan and the frequency in which such professional or dispensing fees may be charged. With respect to drug product eligibility, such laws and regulations typically regulate the requirements for listing the manufacturer's products as a benefit or partial benefit under the applicable governmental drug plan, drug pricing and, in the case of generic prescription drug products, the requirements for designating the product as interchangeable with a branded prescription drug product. In addition, other federal, provincial, territorial and local laws and regulations govern the approval, packaging, labeling, sale, marketing, advertising, handling, storage, distribution, dispensing and disposal of prescription drugs.

Sales of prescription drugs, pharmacy reimbursement and drug prices may be affected by changes to the health care industry, including legislative or other changes that impact patient eligibility, drug product eligibility, the allowable cost of a prescription drug product, the mark-up permitted on a prescription drug product, the amount of professional or dispensing fees paid by third-party payers or the provision or receipt of manufacturer allowances by pharmacy and pharmacy suppliers.

The majority of prescription drug sales are reimbursed or paid by third-party payers, such as governments, insurers or employers. These third-party payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products.

On January 29, 2018, the Pan-Canadian Pharmaceutical Alliance, which represents participating federal, provincial, and territorial public drug plans, announced that it reached a new 5-year agreement with the Canadian Generic Pharmaceutical Association with respect to the pricing of generic drugs in Canada. As of April 1, 2018, the prices of nearly 70 of the most commonly prescribed drugs in Canada were reduced by 25% - 40%, resulting in overall discounts of up to 90% off the price of their brand-name equivalents. These drugs include those used to treat high blood pressure, high cholesterol, and depression, and are collectively used by millions of Canadians.

Furthermore, on February 28, 2018, Alberta Health announced a new funding framework that was entered into with the Alberta Pharmacists' Association that took effect May 17, 2018. Amongst other things, the changes reduced dispensing fees in the Province from $12.30 to $12.15 and placed a limit on the number of frequent dispensing fees. The new funding framework also contemplated a potential holdback policy where at least 10% of government funding to pharmacies for certain fees, including dispensing fees, may be temporarily or permanently withheld each quarter to be used to address any provincial government budget shortfall the "Holdback"). The Holdback percentages may be modified based on the trend of forecasted savings in the government's Pharmacy Compensation Budget. While the Company understands that the Holdback will be eliminated on April 1, 2020 and for the fiscal year April 1, 2019 to March 31, 2020, the Holdback will be established at 0%, the provincial government reserves the right to revisit this policy.

On April 25, 2019, following the release of the 2019 Ontario provincial budget, the Ontario Ministry of Health and Long-Term Care ("MOHLTC") released draft proposed amendments (the "Draft ODBA Amendments") to the regulation under the *Ontario Drug Benefit Act* (the "ODBA") amending O. Reg. 201/9. If approved in their current form, the Draft ODBA Amendments would change pharmacy reimbursement rules related to drug markup and professional services provided to residents of long-term care homes. The Draft ODBA Amendments include: (i) prescribing a tiered mark-up payable to pharmacies for supplying listed drug products under the ODBA that is based on the cost of the drug dispensed; and (ii) removing the payment of a dispensing fee for drug products supplied for a long-term care home resident by a pharmacy service provider and instead switching to a capitation model where pharmacy service providers would receive a professional fee for all pharmacy services provided to the long-term care home that is based on the number of beds in the home. No timetable has been established for implementing the Draft ODBA Amendments, and it is currently not known if they will be implemented in their current form. However, if the Draft ODBA Amendments are passed in their current form, they could have a significant negative impact on the Company's long-term care pharmacy operations in Ontario prior to the Company taking any offsetting measures.

While the Company continues to take action to mitigate the effects of these changes, including through the Business Re-Engineering Plan, these, as well as other ongoing changes impacting pharmacy reimbursement programs, prescription drug pricing and manufacturer allowance funding, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales and payments relating thereto. These changes may have a material adverse impact on the Company's business, sales and profitability.

Private Surgery Regulation

There are currently initiatives intended to compel enforcement by the Medicare Services Commission of the Government of British Columbia (the "Commission") of certain provisions of the Medicare Protection Act (British Columbia) ("Act") against private clinics operating in the province with the use of doctors enrolled in the Medicare Services Plan of British Columbia (the "Plan"). The Plan insures medically-necessary services for residents of British Columbia. Under the Act, enrolled doctors are prohibited from providing services in both the public and private systems. The Company's subsidiary, False Creek Health Care Centre LP ("False Creek"), operates a private clinic in British Columbia that uses the services of independent doctors that are enrolled under the Plan. A constitutional challenge has been brought by another private clinic in British Columbia challenging certain provisions of the Act, including the prohibition of enrolled doctors from providing services in both the public and private systems. The goal of the challenge is to have the Commission remove the restrictions that prevent British Columbia residents from obtaining timely, and potentially life-saving, medical care. The trial is expected to be completed in the fall of 2019, with a decision expected to be released sometime in 2020.

If the constitutional challenge is successful then this should dispose of initiatives intended to compel enforcement by the Commission of certain provisions of the Act. If the constitutional challenge is unsuccessful and the Commission commences initiatives aimed at enforcement of the Act, it is expected that this would result in a direct and material impact on the False Creek Healthcare Centre.

Reliance on Contracts with Key Customers

Revenues attributable to the Company's businesses are dependent upon certain significant customers. There can be no assurance that the Company's contracts with its key customers will be renewed or that the Company's services will continue to be utilized by those key customers. There could be material adverse effects on the businesses of the Company if a key customer does not renew its contracts with the Company, or elects to terminate its contracts with the Company in favour of another service provider. Further, there is no assurance that any new agreement or renewal entered into by the Company with its customers will have terms similar to those contained in current arrangements, and the failure to obtain those terms could have an adverse effect on the Company's businesses.

Supply Chain

The Company sources the majority of its pharmaceutical products from a single supplier. Therefore, the Company's distribution operations and supply chain are exposed to potential disruptions which could affect the cost and timely delivery of pharmaceutical products. While the Company has made provision for any disruption of service, any disruption, even if temporary, could negatively affect the Company's sales and financial performance.

Litigation and Insurance Cover

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. However, to the extent that management's assessment of the Company's exposure in respect of such matters is either incorrect or changes as a result of any determinations made by judges or other finders of fact, the Company's exposure could exceed current expectations, which could have a material adverse effect on its financial position, results of operations or cash flows.

The Company makes acquisitions of various sizes that may involve consideration to vendors in the form of cash and securities of the Company, as well as adjustment or contingent consideration that may take the form of price protection, earn-outs or performance rewards over a period of time. Contestation through litigation by vendors at a future date of actual, or applicable, entitlements under the negotiated agreements can happen, and may result in liabilities and contingencies to the Company or strained working relationships with vendors turned key employees in connection with the acquisition. The Company also completes divestitures of various sizes and the Company may from time-to-time be a party to a dispute relating to the transaction, which could result in liabilities and/or contingencies to the Company.

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. The Company 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.

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, who have no pre-emptive rights in connection with such issuances. In addition, the Company has, and may continue in the future, to issue common shares or warrants in connection with acquisitions and customer or supplier arrangements to better align the interests of certain stakeholders with that of the Company. Any further issuance of shares may dilute the interests of existing shareholders.

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. 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.

Liquidation Priority of the Preferred Shares

The common shares of the Company rank junior to the convertible preferred shares issued to Ewing Morris with respect to amounts payable in the event of its liquidation, dissolution or winding-up. If the Company voluntarily or involuntarily liquidates, dissolves or winds-up, no distribution of its assets may be made to holders of common shares until it has paid to holders of the convertible preferred shares their liquidation preference, which is currently calculated at $12.0 million.

Increased Costs of a Change of Control

Certain provisions of the convertible preferred shares issued to Ewing Morris could make it more difficult or more expensive for a third party to acquire the Company. For example, if a change of control were to occur or the Company were to sell all or substantially all of its assets, holders of the convertible preferred shares have the right to redeem their convertible preferred shares at certain premiums to their liquidation preference. In addition, the holder of the convertible preferred shares has the right to force an acquirer of the Company to maintain the convertible preferred shares in the capital structure of the resulting entity in certain circumstances. These features of the convertible preferred shares could increase the cost of acquiring the Company or otherwise discourage a third party from acquiring it.

Acquisitions and Integration

The Company has and continues to expect to make acquisitions of various sizes that fit particular niches within Centric Health's overall corporate strategy. 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. 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

In the Surgical and Medical Centres segment, 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.

Credit Risk

The Company is exposed to credit risk to the extent that its clients become unable to meet their payment obligations. The Company's exposure to concentrations of credit risk is limited. Accounts receivable are from the workers compensation boards, government agencies, employers, insurance companies and patients.

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.

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. The Company has developed protocols and procedures should they be required to deal with any potential outbreaks impacting its facilities. 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.

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.

Accounting, Tax and Legal Rules and Laws

Any changes to accounting, legal 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. Further, the Company may take positions with respect to the interpretation of accounting, tax and legal rules and laws that may be different than the interpretation taken by applicable regulatory authorities. Although the Company believes that its provision for its legal and tax liabilities is reasonable, determining this provision requires significant judgment and the ultimate outcome may differ from the amounts recorded in its financial statements and may materially affect its financial results in the period or periods for which such determination is made. 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.

Significant Shareholders

There are significant shareholders of the Company that may be long-term holders of the common shares in the Company. This has the effect of reducing the public float for the common shares, which may, in turn, impact the liquidity for the shares. In addition, relatively low liquidity may adversely affect the price at which the common shares of the Company trade on the listed market. Significant shareholders may also be able to exercise significant influence over any matter requiring shareholder approval in the future.

Ethical Business Conduct

A violation of law, the breach of Company policies or unethical behaviour may impact 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.

Volatile Market Price for Securities of the Company

The market price for securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company’s control, including:

- actual or anticipated fluctuations in the Company’s quarterly results of operations;
- changes in estimates of future results of operations by the Company or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- addition or departure of the Company’s executive officers and other key personnel;
- release or other transfer restrictions on outstanding securities;
- sales or perceived sales of additional securities;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and,
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company’s industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the securities of the Company may decline even if the operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company’s environmental, governance and social practices and performance against such institutions’ respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Company’s securities by those institutions, which could adversely affect the trading price of the Company’s securities. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility continue, the Company’s operations and the trading price of the Company’s securities may be adversely affected.

The Company Needs to Comply with Financial Reporting and Other Requirements as a Public Company

The Company is subject to reporting and other obligations under applicable Canadian securities laws and TSX rules, including National Instrument 52-109. These reporting and other obligations place significant demands on the Company’s management, administrative, operational and accounting resources. Moreover, any failure to maintain effective internal controls could cause the Company to fail to meet its reporting obligations or result in material misstatements in its consolidated financial statements. If the

Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed, which could also cause investors to lose confidence in the Company's reported financial information, which could result in a lower trading price of its securities.

Management does not expect that Company's disclosure controls and procedures and internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Future Sales of the Company's Securities by Directors and Executive Officers

Subject to compliance with applicable securities laws, directors and executive officers and their affiliates may sell some or all of their securities in the Company in the future. No prediction can be made as to the effect, if any, such future sales will have on the market price of the Company's securities prevailing from time to time. However, the future sale of a substantial number of securities by the Company's directors and executive officers and their controlled entities, or the perception that such sales could occur, could adversely affect prevailing market prices for the Company's securities.

Directors and Officers May Have Conflicts of Interest

Certain of the directors and officers of the Company may also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company are being made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company.

Third Party Service Providers

The Company is reliant upon third-party service providers in respect of certain of its operations. It is possible that negative events affecting these third-party service providers, or any negligence or failure to perform the services as contemplated, could, in turn, negatively impact the Company. In order to minimize operating risks, the Company actively monitors and manages its relationships with its third-party service providers.

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, users 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 measures cash generated from operations which the Company can use to fund working capital requirements, service interest and principal debt repayments and fund future growth initiatives. 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.

	For the three month periods ended June 30,		**For the six month periods ended June 30,**	
	2019	2018	**2019**	2018
(thousands of Canadian Dollars)	**$**	$	**$**	$
Net loss from continuing operations	**(1,519)**	(20,238)	**(7,801)**	(22,977)
Depreciation and amortization	**2,285**	1,775	**4,493**	3,590
Interest expense	**3,212**	1,827	**6,048**	3,495
Amortization of lease incentives	**—**	—	**—**	39
Income tax expense (recovery)	**(1,022)**	(1,144)	**201**	(1,012)
EBITDA from continuing operations	**2,956**	(17,780)	**2,941**	(16,865)
Transaction and restructuring costs	**702**	901	**1,380**	1,399
Change in fair value of contingent consideration liability	**735**	610	**789**	941
Share-based compensation expense	**382**	274	**857**	732
Change in fair value of derivative financial instruments	**(2,534)**	18	**(1,863)**	(100)
Loss (gain) on disposal of property and equipment	**1**	2	**(3)**	2
Adjusted EBITDA from continuing operations	**2,242**	1,025	**4,101**	3,109
Adjusted EBITDA from discontinued operations	**1,306**	2,384	**2,587**	4,125
Adjusted EBITDA	**3,548**	3,409	**6,688**	7,234
Weighted average number of shares - basic and diluted	**211,526**	203,393	**211,122**	202,755
Adjusted EBITDA per share from continuing operations - basic and diluted	**$0.01**	$0.01	**$0.02**	$0.02
Adjusted EBITDA per share - basic and diluted	**$0.02**	$0.02	**$0.03**	$0.04

Proposed Transactions

There are no significant proposed transactions which have not been disclosed.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Unaudited Condensed Interim Consolidated Financial Statements

For the three and six month periods ended June 30, 2019 and 2018

(in thousands of Canadian dollars)

Dated: August 14, 2019

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Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	June 30, 2019	December 31, 2018 (Revised - Note 18)
	$	$
Assets		
Current assets		
Restricted cash (note 8)	**400**	1,400
Trade and other receivables	**11,195**	11,720
Inventories	**4,937**	4,749
Prepaid expenses and other current assets	**1,129**	1,200
Assets of disposal groups classified as held for sale (note 15)	**29,634**	24,303
	47,295	43,372
Non-current assets		
Property and equipment (note 4)	**21,457**	11,857
Derivative financial instrument (note 10)	**70**	325
Investments (note 10)	**1,950**	1,950
Goodwill and intangible assets (note 4)	**55,868**	59,895
Deferred income tax assets (note 5)	**6,143**	6,090
Total assets	**132,783**	123,489
Liabilities		
Current liabilities		
Trade payables and other liabilities (note 6)	**17,323**	15,495
Current portion of borrowings (note 7)	**77,459**	89,098
Current portion of contingent consideration (note 3)	**3,577**	3,480
Current portion of finance lease liabilities (note 10)	**1,176**	92
Liabilities of disposal groups classified as held for sale (note 15)	**11,637**	4,185
	111,172	112,350
Non-current liabilities		
Borrowings (note 7)	**9,347**	151
Other deferred amounts (note 8)	**17,520**	19,068
Contingent consideration (note 3)	**2,083**	1,659
Deferred income tax liabilities (note 5)	**266**	29
Deferred lease incentives	**—**	265
Finance lease liabilities (note 10)	**8,350**	44
Total liabilities	**148,738**	133,566
Equity		
Share capital (note 9)	**132,653**	132,107
Warrants	**846**	757
Contributed surplus	**29,871**	29,517
Deficit	**(179,589)**	(172,646)
Equity attributable to shareholders of Centric Health Corporation	**(16,219)**	(10,265)
Non-controlling interests (note 15)	**264**	188
Total equity	**(15,955)**	(10,077)
Total liabilities and equity	**132,783**	123,489

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements, including Note 1 which details the basis of presentation

Approved by the Board

"Kevin Dalton"
Kevin Dalton, Director

"Yazdi Bharucha"
Yazdi Bharucha, Director

Consolidated Statements of Income and Comprehensive Income

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

	For the three month periods ended June 30,		For the six month periods ended June 30,	
	2019	2018 (Note 15)	**2019 (Note 15)**	2018 (Note 15)
	$	$	**$**	$
Revenue	**31,490**	29,555	**61,023**	61,143
Cost of healthcare services and supplies	**21,726**	20,734	**42,000**	42,393
General and administrative expenses (note 12)	**10,190**	9,847	**20,269**	20,004
Transaction, restructuring and other costs (note 13)	**702**	901	**1,380**	1,399
Loss from operations	**(1,128)**	(1,927)	**(2,626)**	(2,653)
Interest expense (note 14)	**3,212**	1,827	**6,048**	3,495
Change in fair value of derivatives financial instrument (note 10)	**(2,534)**	18	**(1,863)**	(100)
Change in fair value of contingent consideration liability (note 3)	**735**	610	**789**	941
Goodwill impairment (note 4)	**—**	17,000	**—**	17,000
Loss before income taxes	**(2,541)**	(21,382)	**(7,600)**	(23,989)
Income tax expense (recovery)	**(1,022)**	(1,144)	**201**	(1,012)
Net loss from continuing operations	**(1,519)**	(20,238)	**(7,801)**	(22,977)
Income (loss) from discontinued operations (note 15)	**(77)**	(455)	**934**	431
Net loss for the period	**(1,596)**	(20,693)	**(6,867)**	(22,546)
Net loss from continuing operations attributable to:				
Shareholders of Centric Health Corporation	**(1,519)**	(20,238)	**(7,801)**	(22,977)
Net income (loss) from discontinued operations attributable to:				
Shareholders of Centric Health Corporation	**(130)**	(503)	**858**	358
Non-controlling interests (note 15)	**53**	48	**76**	73
Basic and diluted earnings (loss) per common share attributable to shareholders of Centric Health Corporation:				
From continuing operations	**($0.01)**	($0.10)	**($0.04)**	($0.11)
From discontinued operations	**$0.00**	$0.00	**$0.00**	$0.00
From earnings for the period	**($0.01)**	$(0.10)	**($0.04)**	($0.11)
Weighted average number of common shares outstanding (in thousands) (note 9)				
Basic and diluted	**211,526**	203,393	**211,122**	202,755

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

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars, except number of common shares)

	Number of common shares[1]	Share capital $	Warrants $	Contributed surplus $	Equity portion of convertible borrowings $	Deficit $	Equity attributable to the shareholders of Centric Health Corporation $	Non-controlling interest (note 15) $	Total $
Balance at December 31, 2017	**201,468,731**	**128,886**	**805**	**29,003**	**—**	**(139,017)**	**19,677**	**455**	**20,132**
RSUs, warrants and options exercised	1,755,672	984	(152)	(372)	—	—	460	—	460
Shares released from escrow or treasury and warrants issued related to contingent consideration	60,605	29	—	—	—	—	29	—	29
Deferred compensation expense	—	—	—	607	—	—	607	—	607
Deferred consideration for acquisitions (note 3)	400,000	220	—	(220)	—	—	—	—	—
Distributions to non-controlling interests	—	—	—	—	—	—	—	(204)	(204)
Net income (loss) for the period	—	—	—	—	—	(22,307)	(22,307)	73	(22,234)
Balance at June 30, 2018	**203,685,008**	**130,119**	**653**	**29,018**	**—**	**(161,324)**	**(1,534)**	**324**	**(1,210)**
Balance at December 31, 2018 (note 18)	**210,355,022**	**132,107**	**757**	**29,517**	**—**	**(172,646)**	**(10,265)**	**188**	**(10,077)**
RSUs, warrants and options exercised (note 9)	1,188,254	503	—	(503)	—	—	—	—	—
Shares released from escrow or treasury and warrants issued related to contingent consideration (note 9)	200,000	43	—	—	—	—	43	—	43
Issuance of warrants (note 9)	—	—	89	—	—	—	89	—	89
Deferred compensation expense	—	—	—	857	—	—	857	—	857
Net income (loss) for the period	—	—	—	—	—	(6,943)	(6,943)	76	(6,867)
Balance at June 30, 2019	**211,743,276**	**132,653**	**846**	**29,871**	**—**	**(179,589)**	**(16,219)**	**264**	**(15,955)**

[1] Excludes 4,554,232 of shares held in escrow and restricted shares as at June 30, 2019 (note 9).

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

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	For the six month periods ended June 30,	
	2019	2018
Cash provided by (used in):	**$**	$
Operating activities		
Net loss for the period	**(6,867)**	(22,234)
Adjustments for:		
Interest expense (notes 14 and 15)	**6,496**	3,495
Change in fair value of derivative financial instrument (note 10)	**(1,863)**	(100)
Gain on disposal of property, equipment and intangible assets	**(3)**	2
Depreciation of property and equipment (note 4)	**2,036**	1,729
Amortization of finite life intangible assets (note 4)	**2,614**	2,759
Amortization of lease incentives and lease inducements	**—**	195
Income taxes received	**329**	280
Income tax expense (recovery)	**1,268**	(710)
Share-based compensation expense (note 9)	**857**	732
Goodwill impairment (note 4 and 15)	**600**	19,000
Change in the fair value of contingent consideration liability (note 3)	**789**	941
Gain on sale of business (note 15)	**(624)**	—
Supply agreement arrangements, net of amortization (note 8)	**(858)**	(863)
Cannabis agreements, net of amortization (note 8)	**(690)**	—
Net change in non-cash working capital items (note 17)	**(1,444)**	487
Cash provided by operating activities	**2,640**	5,713
Investing activities		
Proceeds on disposal of property, equipment and intangible assets	**19**	2
Acquisition of businesses	**—**	(490)
Purchase of property and equipment (note 4)	**(2,295)**	(876)
Purchase of intangible assets (note 4)	**(234)**	(885)
Payment of contingent consideration (note 3)	**(225)**	(133)
Proceeds from sale of businesses (note 15)	**4,413**	—
Investments (note 10)	**—**	(750)
Cash provided by (used in) investing activities	**1,678**	(3,132)
Financing activities		
Net proceeds from Private Placement	**11,344**	—
Interest paid	**(2,808)**	(3,284)
Repayment of Term Facility (note 7)	**(1,125)**	(1,500)
Restricted cash released from restrictions (note 8)	**1,000**	—
Withdrawal from (repayment of) Revolving Facility and Acquisition Facility (note 7)	**(10,829)**	2,069
Repayment of finance loans (note 7)	**(28)**	—
Repayment of finance leases	**(1,872)**	(122)
Distributions to non-controlling interests	**—**	(204)
Proceeds from warrants exercised	**—**	460
Cash used in financing activities	**(4,318)**	(2,581)
Increase in cash and cash equivalents	**—**	—
Cash and cash equivalents, beginning of period	**—**	—
Cash and cash equivalents, end of period	**—**	—

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

1. Going Concern and Liquidity Risk

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that Centric Health Corporation, together with its subsidiaries (collectively, "Centric Health" or the "Company") will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

On March 20, 2018 and June 29, 2018, the Company amended its agreements for the Credit Facilities to increase the threshold on its debt to trailing twelve-month EBITDA covenant and decrease the threshold on its fixed-charge coverage ratio covenant. The amendments were made to the fourth quarter of 2017 and the first three quarters of 2018 due to non-compliance in those quarters due to timing differences in the transition between contracts and the delayed onboarding of beds from issues with a third-party supplier, as well as the impact of recent regulatory changes. On November 14, 2018, the Company received a covenant waiver for the third quarter of 2018 and further amended its agreements for the Credit Facilities such that interest owing on the Subordinated Facility would accrue for a period of up to six months and the Company would be subject to escalating increases in interest rates of 0.75% to 2.0% on its Senior Facilities and 2.5% to 5.0% on its Subordinated Facility, all of which would be payable and due on the earlier of the completion of a divestiture of its non-core assets or March 31, 2019.

On March 12, 2019, the Company received a covenant waiver for the fourth quarter of 2018 and amended its agreements for the Credit Facilities to revise its financial covenants for the fourth quarter of 2018 and first quarter of 2019 to financial targets established by a financial review by an independent third-party that was approved by the lenders. In addition to the revised financial covenants, the amendments also revised the payment of the accrued interest owing on the Senior Facilities and Subordinated Facility, such that half of the accrued interest, excluding any escalations in interest rates, on the Subordinated Facility would be payable on the issuance of the convertible preferred shares on March 12, 2019 as described below.

On May 30, 2019, the Company received a covenant waiver for the second quarter of 2019 and further amended its agreements for the Credit Facilities to revise its financial covenants for the second quarter of 2019 to financial targets consistent with the previous two quarters in addition to a further financial covenant based on the Company's cash flow forecasts. In addition, the amendments also affected a temporary reduction in the Revolving Facility from $20,000 to $18,000 and a permanent reduction in the Acquisition Facility from $20,000 to $4,786. All payment dates related to the remaining accrued interest and fees owing on the Senior Facilities and Subordinated Facility were amended to align with the completion of a divestiture of remaining non-core assets.

There is no assurance that the lenders will provide additional relief of these covenants or that the Company could refinance or repay its Credit Facilities through new sources of financing in the event future breaches occur. These circumstances may cast significant doubt as to the Company's ability to continue as a going concern, and the ultimate appropriateness of the use of accounting principles applicable to a going concern.

In 2018, the Company was subject to two significant regulatory changes: (1) the pan-Canadian generic pharmaceuticals plan; and (2) The Government of Alberta funding framework for Pharmacists. These two regulatory changes have had a significant impact on operations and financial performance. During the prior year, Management initiated a plan to offset the impact of regulatory changes within Specialty Pharmacy, focused on re-engineering the businesses to achieve operational efficiencies through work flow improvements, enhanced labour models, expanding service and product offerings, identifying other revenue generating opportunities and utilization of technology for automating processes. One of these initiatives commenced in September 2018 when the Company entered into multi-year supply and service agreements with a preferred cannabis partner for the provision of medical cannabis, and, as consideration for being the preferred supplier, the Company received upfront cash that can be used for growth of the Specialty Pharmacy business. The remaining initiatives aimed at achieving operational efficiencies and expanding other revenue generating activities were completed by the end of the fourth quarter of 2018.

In the event these initiatives, combined with continued organic growth and management of working capital, do not generate sufficient cash flows from operations to meet its obligations as they come due, the Company may need to generate funds from other sources of financing or other strategic alternatives, including the sale of assets.

1. Going Concern and Liquidity Risk - continued

The Company is committed to executing on its operating plan and further reducing its leverage and, as such, continues its review and evaluation of strategic alternatives available to the Company that are in line with the Company's strategic direction. The Company retained a financial adviser to explore strategic opportunities, including divesting existing businesses and other non-core assets and recapitalization of the balance sheet through the issuance of additional equity, convertible debt or subordinated debt. All strategic alternatives being considered by the Company will be focused on further deleveraging the balance sheet and maximizing shareholder value.

As part of the execution of this strategy, on February 14, 2019 and June 23, 2019 the Company closed two sales of its retail pharmacy operations in Alberta in exchange for $2,286 and $2,128 in proceeds, respectively. In addition, the Company issued 30,000,000 convertible preferred shares on March 12, 2019 in exchange for $12,000 in proceeds. Each convertible preferred share is entitled to receive a cumulative annual dividend of 9%, payable in arrears semi-annually. Each convertible preferred share is convertible into common shares at the holder's option on a one-for-one basis, and are redeemable at the Company's option in certain circumstances, subject to customary anti-dilution adjustments. The convertible preferred shares mature five years from the date of closing at which time each convertible preferred share will be redeemed by the Company for $0.40 plus any unpaid dividends. The Company continues to explore and execute on other strategic opportunities to further deleverage the balance sheet.

Subsequent to the end of the second quarter of 2019, on August 9, 2019, the Company signed a definitive agreement to sell the Surgical and Medical Centres business for a cash purchase price of $35,000. The transaction is expected to close on or about September 30, 2019, subject to satisfying customary closing conditions, including the receipt of applicable regulatory and other third party approvals. The net proceeds from the sale are expected to be used to repay a portion of the Credit Facilities.

There can be no assurance that: the Company will be successful in achieving the results as set out in its operating plan or generate sufficient cash flows from operations to meet its obligations as they come due throughout 2019; the Company will complete the execution of other strategic alternatives; the Company will meet conditions established by lenders in the amended agreements; or that the lenders will continue to amend the Credit Facilities to mitigate any future breaches of covenants. The Company's ability to continue as a going concern materially affects the measurement of many amounts related to the Company in the consolidated financial statements. These measurements could be materially different than currently presented.

2. Significant Accounting Policies

Centric Health is 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 pharmacy and other 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.

Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as outlined by International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"). They do not include all the information required for a complete set of annual financial statements prepared in accordance with IFRS and therefore should be read in conjunction with the Company's audited annual consolidated financial statements and notes thereto for the year ended December 31, 2018. However, selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in the Company's financial position and performance since December 31, 2018.

With the exception of the new standard adopted by the Company described below, the accounting policies applied in these unaudited condensed 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, 2018. The Company has consistently applied the same accounting policies throughout all periods presented, unless otherwise noted, as if these policies had always been in effect.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors (the "Board") on August 14, 2019.

New accounting standards adopted by the Company

The Company has initially adopted IFRS 16 *Leases* ("IFRS 16") beginning January 1, 2019. A number of other amendments are also effective from January 1, 2019 but they do not have a material effect on the Company's financial statements.

IFRS 16 Leases

The Company has initially adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated - it is presented, as previously reported, under IAS 17 and related interpretations.

In its capacity as a lessee, the Company previously classified leases as operating or finance leases. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, for most of its leases previously classified as operating leases, the Company has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability adjusted by the amount of any prepaid or accrued lease liability recognized in the consolidated statement of financial position immediately before the date of initial application. Right-of-use assets of $8,767 and lease liabilities of $9,023 were recorded as of January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 10.5%.

The Company has elected to apply the following practical expedients on transition to IFRS 16:

a) Applied a single discount rate to a portfolio of leases with similar characteristics;
b) Applied the recognition exemption permitted for short-term leases (i.e., less than 12 months). The lease payments associated with these leases are recognized as an expense in the consolidated statement of income and comprehensive income in operating expenses on a straight-line basis over the remaining lease term; and
c) Applied the practical expedient whereby the Company is not required to reassess whether a contract is, or contains, a lease on the date of initial application, as previously assessed under IAS 17 and IFRIC 4.

2. Significant Accounting Policies - continued

The following table provides a reconciliation of the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease liability recognized on the initial application of IFRS 16 at January 1, 2019.

Continuing operations	$
Operating lease commitments as at December 31, 2018	4,427
Operating lease commitments discounted using the incremental borrowing rate at January 1, 2019	4,047
Finance lease liabilities as at December 31, 2018	136
Recognition exemption for short-term leases	(315)
Lease renewal options reasonably expected to be exercised	5,291
Lease liability recognized at January 1, 2019	**9,159**

The following table reconciles the impact of IFRS 16 on the previously reported statement of financial position as at December 31, 2018:

	As reported at December 31, 2018 $	Impact from the adoption of IFRS 16 $	As adjusted at January 1, 2019 $
Property and equipment	11,857	8,767	20,624
Current portion of finance lease liabilities	92	1,060	1,152
Non-current portion of finance lease liabilities	44	7,963	8,007
Deferred lease incentive	265	(265)	—
Trade payables and other liabilities	15,495	9	15,504
Assets of disposal groups classified as held for sale	24,303	7,937	32,240
Liabilities of disposal groups classified as held for sale	4,185	7,937	12,122

Significant accounting policy updates

In addition to the accounting policies used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018, the Company has updated its accounting policies as described below.

Leases

The Company leases assets including properties, equipment and vehicles.

At inception of the arrangement, the Company assesses whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in return for consideration. The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

2. Significant Accounting Policies - continued

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property and equipment' in the statement of financial position.

Critical accounting estimates and judgments updates

In addition to the accounting estimates and judgments used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018, the Company has updated its critical accounting estimates and judgments as described below.

Leases

Management makes assumptions and estimations in the determination of the incremental borrowing rates used to calculate the present value of lease payments. In addition, the Company exercises judgment when assessing whether renewal options are reasonably certain to be exercised.

3. Contingent Consideration

The fair value of contingent consideration is an estimate. The valuation model considers possible scenarios of forecast EBITDA or other performance metrics, the amount to be paid under each scenario and the probability of each scenario. The fair value is dependent on certain inputs such as forecast EBITDA, non-financial metrics, risk adjusted discount rates and the Company's share price.

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

	CareRx	Grande Prairie	Salus	Other	Total
	$	$	$	$	**$**
Balance at December 31, 2018	1,410	1,182	1,454	1,093	**5,139**
Change in fair value during the period	—	—	23	31	**54**
Contingent consideration settled in cash	—	—	(225)	—	**(225)**
Balance at March 31, 2019	**1,410**	**1,182**	**1,252**	**1,124**	**4,968**
Change in fair value during the period	230	121	201	183	**735**
Contingent consideration settled in shares	—	(43)	—	—	**(43)**
Balance at June 30, 2019	**1,640**	**1,260**	**1,453**	**1,307**	**5,660**
Less: Current portion	**1,640**	**1,260**	**441**	**236**	**3,577**
Non-current portion at June 30, 2019	**—**	**—**	**1,012**	**1,071**	**2,083**

On October 7, 2016, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of CareRx in the amount of $2,988, which represented its fair value at the date of acquisition, payable over a three-year period. The fair value on acquisition consisted of $967 in performance cash, $468 in performance shares (up to a maximum 2,500,000 common shares) and $nil in warrants (up to a maximum of 2,000,000 warrants) based on the share price of the Company's common shares on October 7, 2016 ($0.36 per share), and the probability of meeting or exceeding EBITDA targets and executing certain long-term contracts. The warrants will vest if CareRx exceeds the EBITDA target and/or executes certain long-term contracts, allowing the holder to purchase one share of the Company at an exercise price of $0.395 over a two-year term. In addition, the fair value of contingent consideration on the date of acquisition included $1,553, which is payable depending on the Company's share price at a future date. This amount was estimated based on a risk-adjusted discount rate of 10% and the Company's share price on the acquisition date. As a result of CareRx's performance to date, certain performance conditions were not met and the probability assigned to the execution of certain long-term contracts was reduced to nil, resulting in the reversal of the contingent consideration liability recorded for all performance cash, performance shares and warrants. The ending liability as at June 30, 2019 of $1,640 relates to outstanding payments based on the share price of the Company's common shares issued as consideration at the closing of the transaction. As at June 30, 2019, the expected range of the potential undiscounted amounts payable remaining is between $nil and $3,041.

On December 22, 2016, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of Grande Prairie in the amount of $1,064, which represented its fair value at the date of acquisition, payable over a three-year period. The fair value on acquisition consisted of $405 in performance cash, $220 in performance shares (up to a maximum of 400,000 common shares) and $nil in warrants (up to a maximum of 400,000 warrants) based on the share price of the Company's common shares on December 22, 2016 ($0.55 per share) and the probability of meeting or exceeding EBITDA targets. On the acquisition date, the Company estimated a 100% probability of meeting the EBITDA target. The warrants would have vested if Grande Prairie exceeded the EBITDA target, allowing the holder to purchase one share of the Company at an exercise price of $0.5382 over a two-year term. In addition, the fair value of contingent consideration on the date of acquisition included $439, which is payable depending on the Company's share price on a future date. This amount was estimated based on a risk-adjusted discount rate of 10% and the Company's share price on the acquisition date. During 2018, the probability of meeting or exceeding EBITDA targets was reduced as a result of a reduced EBITDA forecast. The two-year term for the EBITDA targets ended in December 2018 and the contingent consideration liability with respect to the associated performance cash and performance shares was revised based on the actual EBITDA earned during this period, resulting in the issuance of $43 in performance shares on June 10, 2019. As at June 30, 2019, the expected range of potential undiscounted amounts remaining payable in relation to the Grande Prairie contingent consideration is between $285 and $1,475.

3. Contingent Consideration - continued

On November 15, 2017, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of Salus in the amount of $1,384, which represented its fair value at the date of acquisition, payable over a five-year period. The fair value on acquisition consisted of $774 in performance cash (up to a maximum of $1,533), $250 in performance shares (up to a maximum of 696,968 shares) and $269 in warrants (up to a maximum of 1,000,000 warrants) subject to certain performance benchmarks being achieved over the five-year period. On the acquisition date the Company estimated a 70% probability of meeting the performance benchmarks. As at June 30, 2019, the Company estimated a 100% probability of meeting the performance benchmarks. The warrants will vest on renewal of a long-term contract, allowing the holder to purchase one common share of the Company for each warrant at an exercise price of $0.6455 over a two-year term. In addition, the fair value of contingent consideration on the date of acquisition included $91, which is payable depending on the Company's share price on a future date. This amount was estimated based on a risk-adjusted discount rate of 10% and the Company's share price on the acquisition date. As at June 30, 2019, the expected range of potential undiscounted amounts payable remaining is between $225 and $1,936.

On March 29, 2019, the Company paid an aggregate of $225 to settle earn-out obligations related to the 2017 acquisition of Salus.

4. Goodwill, Intangible Assets and Property and Equipment

	Goodwill $	Intangible Assets $	Goodwill and Intangible Assets $	Property and Equipment $
Year ended December 31, 2018				
Cost				
Balance at December 31, 2017	77,063	90,495	167,558	32,797
Additions	—	1,909	1,909	2,961
Disposals from sale of business	—	(14)	(14)	(133)
Disposals	—	—	—	(72)
Held for sale	(12,313)	(8,539)	(20,852)	(13,384)
Purchase price allocation adjustment	(2,328)	2,328	—	—
Balance at December 31, 2018	62,422	86,179	148,601	22,169
Accumulated amortization and impairment losses				
Balance at December 31, 2017	(7,159)	(61,471)	(68,630)	(16,405)
Amortization charge	—	(6,123)	(6,123)	(3,523)
Disposals	—	—	—	14
Disposals from sale of business	—	10	10	54
Impairment	(17,000)	—	(17,000)	—
Impairment in discontinued operations	(2,000)	—	(2,000)	—
Held for sale	—	5,037	5,037	9,548
Balance at December 31, 2018	(26,159)	(62,547)	(88,706)	(10,312)
For the period ended June 30, 2019				
Cost				
Balance at December 31, 2018	62,422	86,179	148,601	22,169
Additions	—	234	234	2,997
IFRS 16 Transition	—	—	—	8,767
Disposals	—	—	—	(29)
Held for sale	(1,024)	(1,281)	(2,305)	(164)
Balance at June 30, 2019	**61,398**	**85,132**	**146,530**	**33,740**
Accumulated amortization and impairment losses				
Balance at December 31, 2018	(26,159)	(62,547)	(88,706)	(10,312)
Amortization charge	—	(2,614)	(2,614)	(2,019)
Disposals	—	—	—	12
Held for sale	—	658	658	36
Balance at June 30, 2019	**(26,159)**	**(64,503)**	**(90,662)**	**(12,283)**
Net carrying value				
As at December 31, 2018	36,263	23,632	59,895	11,857
As at June 30, 2019	**35,239**	**20,629**	**55,868**	**21,457**

Included in the net carrying value of property and equipment are right-of-use assets of $9,644 (December 31, 2018 - $181).

4. Goodwill, Intangible Assets and Property and Equipment - continued

The right-of-use assets on the adoption of IFRS 16 and as at June 30, 2019 consist of the following:

	June 30, 2019	January 1, 2019
	$	$
Properties	**8,606**	8,120
Vehicles	**794**	420
Equipment	**244**	227
Total	**9,644**	8,767

During the six month period ended June 30, 2019, additions of property and equipment related to right-of-use assets were $907.

During the six month period ended June 30, 2019, amortization charges related to the right-of-use assets were $731.

The Company has $630 of indefinite life intangible assets at June 30, 2019 (December 31, 2018 - $630).

Annual impairment testing of goodwill

The Company completed its annual impairment testing of goodwill and indefinite life intangible assets as at June 30, 2019. The recoverable amount of the Company's CGUs is determined based on value-in-use calculations. The Company used a capitalized cash flow approach for all CGUs, which involves capitalizing the estimated future maintainable pre-tax cash flows from operations using a pre-tax rate of return, which serves as a measure of the rate of return required by a prospective purchaser of the business reflecting, among other factors, the risk inherent in achieving the determined level of maintainable cash flow. This approach requires assumptions about revenue growth rates, operating margins, and discount rates. The maintainable discretionary pre-tax cash flows from operations were based on historical results and projected results to December 31, 2019 approved by management.

The Company projected normalized revenue, operating margin, and cash flows and applied a perpetual long-term growth rate. In arriving at its forecasts, the Company considered past experience, economic trends and inflation as well as industry and market trends.

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

The recoverable amount of the Company's CGUs is considered to be a Level 3 fair value calculation as described in note 10. The assumptions used by the Company in its goodwill impairment testing are as follows:

CGU	**Goodwill as at June 30, 2019 $**	**Terminal Growth Rate**	**Pre-tax Discount Rate**
Performance Orthotics	1,049	2.0%	14.4%
Pharmacy - Eastern Canada	26,803	2.8%	13.5%
Pharmacy - Western Canada	8,436	2.8%	16.0%
Surgical - Eastern Canada	—	2.0%	14.1%
Surgical - Western Canada	10,185	2.0%	13.9%

4. Goodwill, Intangible Assets and Property and Equipment - continued

During the three month period ended June 30, 2019, the Company recorded impairment charges of $600 related to the Performance Orthotics CGU (note 15).

For each of the remaining CGUs, the recoverable amount calculated was in excess of the carrying value as at June 30, 2019.

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

Included in the disposal groups classified as held for sale for the six month period ended June 30, 2019 were the Performance Orthotics, Surgical - Eastern Canada and Surgical - Western Canada CGUs. The Company compared the fair value less costs to sell of these CGUs to their carrying values and did not recognize any additional impairments.

The Company did not reverse any impairment losses for definite life intangible assets for the three and six month periods ended June 30, 2019 and 2018.

5. 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 26.62% (2018 - 26.85%) to net income due to permanent differences. Permanent differences in the three and six month periods ended June 30, 2019 and 2018 arose as a result of capital gains, unrecognized deferred tax assets, contingent consideration, share-based compensation and other expenses, as these amounts have been recorded for accounting purposes but will never be realized as income or a deduction for income tax purposes.

Deferred income tax assets and liabilities are presented on a net basis by legal entity on the consolidated statement of financial position.

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

	June 30, 2019	December 31, 2018 (Revised - Note 20)
	$	$
Deferred income tax asset	**6,143**	6,090
Deferred income tax liability	**266**	29
Net deferred income tax asset	**5,877**	6,061

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable income is probable. As at June 30, 2019, the Company had losses amounting to $44,625 (December 31, 2018 - $36,605) that can be carried forward against future taxable income. Based on projections for future taxable income over the periods in which the losses should be available, a deferred income tax asset of $2,961 was recognized with respect to $11,311 losses, while the remaining portion of the losses resulted in unrecognized deferred income tax assets of $8,889 (December 31, 2018 - $9,570).

6. Trade Payables and Other Liabilities

Trade payables and other liabilities are comprised of the following:

	June 30, 2019	December 31, 2018
	$	$
Trade payables	**10,271**	9,598
Accrued liabilities	**6,229**	4,688
Deferred revenue	**—**	11
Amounts payable to related parties (note 11)	**15**	15
Severance costs (note 13)	**808**	1,183
Total	**17,323**	15,495

7. Borrowings

Borrowings consist of the following:

	June 30, 2019	December 31, 2018 (Revised - Note 18)
	$	$
Term Facility	**52,175**	53,300
Subordinated Facility	**11,615**	11,558
Revolving Facility	**8,513**	19,203
Acquisition Facility	**4,786**	4,982
Private Placement	**8,035**	—
Unaccreted discount on Private Placement	**(658)**	—
Private Placement embedded derivatives (note 10)	**2,162**	—
Finance loans	**178**	206
Total borrowings	**86,806**	89,249
Less: Current portion of borrowings		
Credit Facilities	**77,089**	89,043
Private Placement	**315**	—
Finance loans	**55**	55
Total current portion of borrowings	**77,459**	89,098
Total non-current portion of borrowings	**9,347**	151

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

Credit Facilities

The Company's credit facilities are with a syndicate of lenders comprised of three major Canadian banks providing for credit facilities of up to an aggregate amount of $113,500 at inception. The credit facilities were made up of up to $100,000 in senior secured facilities (the "Senior Facilities") and $13,500 in a secured subordinated term credit facility (the "Subordinated Facility") (collectively, the "Credit Facilities").

At inception, the Senior Facilities were structured as follows: (i) a revolving credit facility in the amount of up to $20,000, including a swingline of up to $3,000 ("Revolving Facility"), (ii) a non-revolving term loan facility in the amount of up to $60,000 ("Term Facility"), and (iii) a limited revolving acquisition and capital expenditure term loan facility in the amount of up to $20,000 to be available in multiple draws ("Acquisition Facility"). Subject to the satisfaction of certain conditions, the Revolving Facility may be increased by an additional $5,000. Following the May 30, 2019 amendment to the agreement for the Senior Facilities, the Revolving Facility was temporarily reduced to $18,000 and the Acquisition Facility was permanently reduced to $4,786. All borrowings under the Senior Facilities mature five years after the date of the agreement.

Interest rates under the Senior Facilities vary based on the Company's total funded debt to EBITDA ratio with a range between 0.50% to 3.50% over the Canadian prime rate for prime rate loans and 2.00% to 5.00% over CDOR for Bankers' Acceptances and a range of 0.40% to 1.05% for standby fees for amounts not borrowed.

The Subordinated Facility consists of a term loan that was fully drawn in one advance for a total of $13,500, which accrues interest at a rate of 9% per annum. The Subordinated Facility matures five and a half years after the date of the agreement. On June 23, 2017, the Company prepaid $2,000 of the principal balance along with a $20 cash consent fee in accordance with the Subordinated Facility agreement. On June 29, 2018, as a result of an amendment to the Subordinated Facility agreement, the Company began accruing additional interest payable in kind of 1% per annum on a monthly basis towards the outstanding principal balance.

In accordance with the terms of the Credit Facilities, the Company entered into an interest rate swap agreement on July 4, 2017 (note 10).

7. Borrowings - continued

Private Placement

On March 12, 2019, the Company completed a private placement (the “Private Placement”) to funds and accounts managed by Ewing Morris & Co. Investment Partners Ltd. (“Ewing Morris”) for gross proceeds of $12,000 through the issuance of 30,000,000 convertible preferred shares of the Company at an issue price of $0.40 per share (the “Preferred Shares”). Each Preferred Share is entitled to receive a cumulative annual dividend equal to $0.036 per share (9% per annum), payable in arrears semi-annually in cash. The Preferred Shares are convertible into common shares of the Company at the holder’s option on a one-for-one basis, and at the Company’s option in certain circumstances, subject to customary anti-dilution adjustments. The Preferred Shares will mature on March 13, 2024 at which time each outstanding Preferred Share will be redeemed by the Company for $0.40 plus any unpaid dividends.

The proceeds of the Private Placement were used by the Company to repay senior indebtedness. Ewing Morris received the right to nominate one director to the Company’s Board of Directors for so long as it holds the Preferred Shares.

On the closing of the Private Placement, the Company’s financial advisor received advisory fees, including 1,050,000 warrants, with each warrant entitling the holder to acquire one common share in the capital of the Company for a period of 24 months from the closing date at an exercise price of $0.40 per share (note 9).

The Private Placement has been accounted for as a compound financial instrument comprised of: (1) a host liability component representing the contractual cash flows of 9% in annual dividend payments and a cash repayment of $12,000 on maturity, and (2) a derivative liability component representing the fair value of the conversion and redemption features. The derivative liability component is fair valued at each reporting date (note 10).

8. Other Deferred Amounts

Preferred drug supplier

On July 14, 2016, the Company entered into ten-year Business Development, Technology and Supply Agreements with a new drug supplier (the "Agreements"). Under the terms of these Agreements, the Specialty Pharmacy business committed to an exclusive supply agreement with this supplier. In addition, the supplier committed $16,850 to support innovative programs and solutions, as well as organic and acquisitive growth strategies of the Company. The Company received the full amount by the fourth quarter of 2017.

The Company has classified $16,850 as other deferred amounts and is amortizing the amounts into income on a straight-line basis over the term of the Agreements. The remaining unamortized balance as at June 30, 2019 was $11,773.

Preferred cannabis partner

On September 4, 2018, the Company entered into multi-year supply and service agreements with a preferred cannabis partner for the provision of medical cannabis ("Cannabis Agreements"). Under the Cannabis Agreements, the preferred cannabis partner will be the education partner and supplier of medical cannabis to the Company and the seniors that it serves.

As consideration for appointing the preferred cannabis partner as the preferred supplier of medical cannabis, the Company received $7,000 of which $3,000 is to be restricted to growth-related activities for the Specialty Pharmacy division. The Company issued 850,000 warrants to the preferred cannabis partner at an exercise price of $0.25 per common share, vesting after two years and expiring after four years.

The consideration received, net of the fair value of warrants issued ($104), has been accounted for as deferred revenue and is being amortized into income on a straight-line basis over the term of the Cannabis Agreements. The Company has classified the remaining portion of the $3,000 subject to restrictions as Restricted Cash, of which a balance of $400 remained as of June 30, 2019. The remaining unamortized balance as at June 30, 2019 was $5,747.

9. 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 are as follows:

($ thousands, except share amounts)	**June 30, 2019**		December 31, 2018	
Common Shares	**Common Shares**	**Stated value $**	Common Shares	Stated value $
Balance, beginning of period	**210,355,022**	**132,107**	201,468,731	128,886
Issuance of common shares	—	—	5,225,616	1,522
Common shares released from escrow or issued from treasury for contingent consideration	**200,000**	**43**	833,332	245
Stock options, warrants and restricted share units exercised	**1,188,254**	**503**	2,427,343	1,234
Deferred consideration for acquisitions	—	—	400,000	220
Balance, end of period	**211,743,276**	**132,653**	210,355,022	132,107

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

The total common shares in aggregate as at June 30, 2019 are:

Type of common shares	
Freely tradeable	211,743,276
Escrowed and restricted	4,554,232
Total	**216,297,508**

Issuance of common shares

In 2019, the Company issued 1,188,254 common shares related to the exercise of restricted share units issued to management, employees and directors that vested.

	June 30, 2019	December 31, 2018
	Units	Units
RSU exercised	1,188,254	1,427,343
Warrants exercised	—	1,000,000
Total	**1,188,254**	**2,427,343**

Issuance of restricted share units ("RSUs") and deferred share units ("DSUs")

The Company's RSU Plan and DSU Plan provide for the granting of RSUs and DSUs. Under these plans, as part of their long-term incentive package, RSUs can be granted to directors, officers, employees and consultants of the Company and DSUs can be granted to directors and officers of the Company. Each RSU and each DSU represents an entitlement to one common share of the Company.

The maximum number of common shares which may be issued under all security-based compensation arrangements of the Company cannot exceed 10% of the common shares issued and outstanding at any given time, calculated on a non-diluted basis. Grants held by non-employee directors of the Company are at all times limited to no more than 1% of the common shares issued and outstanding, calculated on a non-diluted basis, and the total annual grant to any one non-employee director under all security-based compensation arrangements cannot exceed a grant value of $150,000 in total equity.

RSUs and DSUs vest over a period of three years on each anniversary of the grant date unless a different vesting schedule is approved by the Board of Directors of the Company.

9. Shareholders’ Equity and Earnings per Share - continued

The Company's outstanding and exercisable RSUs and DSUs for the period ended June 30, 2019 and the year ended December 31, 2018 are as follows:

	June 30, 2019	December 30, 2018
RSUs and DSUs	**Units**	Units
Balance, beginning of period	**6,045,903**	3,224,080
RSUs and DSUs granted	**4,643,250**	4,690,000
RSUs and DSUs released	**(1,188,254)**	(1,427,343)
RSUs and DSUs forfeited	**—**	(440,834)
Balance, end of period	**9,500,899**	**6,045,903**

The weighted-average remaining contractual life of RSUs and DSUs outstanding as at June 30, 2019 is 1.93 years.

During the six month period ended June 30, 2019 the Company had the following RSU and DSU grants:

Grant date	**Units granted**	**Granted to**	**Vesting conditions**	**Fair valued based on the quoted market price of issuance per share**
January 14, 2019	1,712,500 RSUs	Management and employees of the Company	Vest over three years	$0.28
January 14, 2019	62,500 DSUs	Management of the Company	Vest over three years, are only eligible to be converted into shares when the holder ceases to be employed by the Company	$0.28
March 28, 2019	30,000 previously forfeited and reissued RSUs	Employees of the Company	Vest over three years	$0.28
March 29, 2019	113,333 DSUs	Management of the Company	33.3% vest immediately and the remaining vest equally over the next two years; are only eligible to be converted into shares when the holder ceases to be employed by the Company	$0.30
March 29, 2019	236,667 DSUs	Management of the Company	Vest over three years, are only eligible to be converted into shares when the holder ceases to be employed by the Company	$0.30
March 29, 2019	776,012 RSUs	Management and employees of the Company	33.3% vest immediately and the remaining vest equally over the next two years	$0.30
March 29, 2019	1,327,238 RSUs	Management and employees of the Company	Vest over three years	$0.30
June 18, 2019	175,000 RSUs	Directors of the Company	Vest over three years	$0.18
June 20, 2019	210,000 RSUs	Management and employees of the Company	Vest over three years	$0.18

9. Shareholders' Equity and Earnings per Share - continued

Issuance of warrants

On March 12, 2019, on the closing of the Private Placement, 1,050,000 warrants were issued to the Company's financial advisor, with each warrant entitling the holder to acquire one common share in the capital of the Company for a period of 24 months from the closing date at an exercise price of $0.40 per share (note 7). The fair value of the warrants issued were calculated using the Black-Scholes pricing model with the following assumptions:

Grant Date	March 12, 2019
Number of warrants issued	1,050,000
Dividend Yield	Nil
Expected Volatility	75%
Risk-free interest rate	1.65%
Expected life in years	2.0
Strike Price	$0.40
Share Price at date of issue	$0.28
Fair value per warrant	$0.085

The Company's outstanding and exercisable warrants are as follows for the six month period ended June 30, 2019 and for the year ended December 31, 2018:

	June 30, 2019		December 31, 2018	
Share purchase warrants	**Warrants**	**Weighted average exercise price**	Warrants	Weighted average exercise price
Balance, beginning of period	**2,822,000**	$0.76	2,972,000	$0.81
Warrants granted (note 7)	**1,050,000**	$0.40	850,000	$0.25
Warrants exercised	—	—	(1,000,000)	$0.46
Balance, end of period	**3,872,000**	**$0.66**	2,822,000	$0.76
Exercisable, end of period	**2,950,000**	**$0.79**	1,900,000	$1.00

The weighted average remaining contractual life and weighted average exercise price of warrants outstanding as at June 30, 2019 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**
$0.25- $0.33	850,000	$0.25	3.18	—	—
$0.34-$0.45	1,050,000	$0.40	1.70	1,050,000	$0.40
$0.46-$0.75	72,000	$0.51	4.45	—	—
$0.76- $1.00	1,900,000	$1.00	0.67	1,900,000	$1.00
Balance, end of period	**3,872,000**	**$0.66**	**1.57**	**2,950,000**	**$0.79**

9. Shareholders' Equity and Earnings per Share - continued

Issuance of stock options

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

	June 30, 2019		December 31, 2018	
Common share options	**Options**	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of period	**1,838,750**	**$0.40**	2,347,500	$0.39
Options expired	**(11,250)**	**$0.40**	(25,000)	$0.39
Options cancelled/forfeited	**(20,000)**	**$0.40**	(483,750)	$0.35
Balance, end of period	**1,807,500**	**$0.40**	1,838,750	$0.40
Exercisable, end of period	**1,347,500**	**$0.40**	1,157,500	$0.40

The weighted average remaining contractual life and weighted average exercise price of options outstanding as at June 30, 2019 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**
$0.24- $0.30	95,000	$0.24	1.9	85,000	$0.24
$0.31-$0.38	500,000	$0.36	2.0	250,000	$0.36
$0.39- $0.42	812,500	$0.40	0.8	812,500	$0.40
$0.43- $0.48	100,000	$0.44	2.4	50,000	$0.44
$0.49- $0.52	300,000	$0.52	2.5	150,000	$0.52
Balance, end of period	**1,807,500**	**$0.40**	**1.5**	**1,347,500**	**$0.40**

Earnings per share

Earnings per share has been calculated on the basis of profit or loss for the period divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share, for all periods presented, was calculated based on the weighted average number of common shares outstanding and takes into account the effects of unvested common shares, share options, warrants and convertible debt outstanding during the period. A loss per share is not adjusted for anti-dilutive instruments. The diluted 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. These instruments were anti-dilutive for the periods presented.

The following table illustrates the basic and diluted weighted average common shares outstanding for the three and six month periods ended June 30, 2019 and 2018:

	For the three month periods ended June 30,		For the six month periods ended June 30,	
	2019	2018	**2019**	2018
Basic and diluted weighted average common shares outstanding	**211,526,466**	203,393,001	**211,121,955**	202,755,291

10. Financial Instruments and Fair Value Measurements

As at June 30, 2019, the Company's financial instruments consisted of cash and cash equivalents, trade and other receivables, interest rate swaps, investments, trade and other payables, contingent consideration, finance lease liabilities, borrowings and embedded derivatives on convertible borrowings.

Fair value hierarchy

Financial instruments carried at fair value have been categorized under the 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 that 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 common shares and derivative liabilities associated with convertible loans.

The following table presents the Company's financial assets (liabilities) measured and recognized at fair value as at June 30, 2019 on a recurring basis:

	Level 2 $	Level 3 $	Total $
Contingent consideration	—	(5,660)	**(5,660)**
Derivative financial instruments	70	(2,162)	**(2,092)**
Investments	—	1,950	**1,950**
Total	**70**	**(5,872)**	**(5,802)**

The following table presents the Company's financial assets (liabilities) measured and recognized at fair value as at December 31, 2018 on a recurring basis:

	Level 2 $	Level 3 $	Total $
Contingent consideration	—	(5,139)	**(5,139)**
Derivative financial instruments	325	—	**325**
Investments	—	1,950	**1,950**
Total	**325**	**(3,189)**	**(2,864)**

There were no non-recurring fair value measurements as at June 30, 2019. There were no financial instruments classified as Level 1 as at June 30, 2019 and 2018. There were no transfers between levels during the three and six month periods ended June 30, 2019.

Details regarding Level 3 fair value measurements for contingent consideration can be found in note 3.

There were no changes in the valuation techniques used during the three and six month periods ended June 30, 2019.

Derivative financial instruments

On July 4, 2017, the Company entered into an interest rate swap agreement for a notional amount of $34,000 and a fixed interest rate of 1.82% per annum (excluding the stamping fee). This agreement expires on September 30, 2020. As at June 30, 2019, the Company had a total notional amount of $29,000 outstanding and the fair value of this swap was $70 in favour of the Company. The interest rate swap is not designated as a cash flow hedge.

10. Financial Instruments and Fair Value Measurements - continued

The continuity of the interest rate swap asset is as follows:

	June 30, 2019	December 31, 2018
	$	$
Fair value of interest rate swap, beginning of period	**325**	280
Change in fair value of interest rate swap	**(255)**	45
Fair value of interest rate swap, end of period	**70**	325

The continuity of the embedded derivative liability is as follows:

	June 30, 2019	December 31, 2018
	$	$
Fair value of embedded derivatives, beginning of period	**—**	—
Embedded derivatives recognized	**4,280**	—
Change in fair value of embedded derivatives	**(2,118)**	—
Fair value of Private Placement embedded derivatives, end of period	**2,162**	—

On March 12, 2019, the Company completed a Private Placement which contained an embedded derivative liability component (note 7). The fair value of the embedded derivatives are calculated using the Black-Scholes pricing model using the following assumptions:

Date	March 12, 2019	June 30, 2019
Number of Preferred Shares	30,000,000	30,000,000
Dividend Yield	Nil	Nil
Expected Volatility	72.3%	71.8%
Risk-free interest rate	1.63%	1.39%
Expected life in years	5.00	4.70
Strike price	$0.40	$0.40
Share price at valuation date	$0.28	$0.18
Fair value	$0.143	$0.072

Financial instruments measured at amortized cost

The carrying value of financial assets and financial liabilities that are measured at amortized cost is an approximation of the fair value for the following financial assets and financial liabilities unless otherwise disclosed below:

	June 30, 2019	December 31, 2018 (Revised - Note 18)
	$	$
Financial assets measured at amortized cost:		
Trade and other receivables	**11,195**	11,720
Financial liabilities measured at amortized cost:		
Trade payables and other liabilities	**17,323**	15,495
Finance lease liabilities	**9,526**	136
Term Facility	**52,175**	53,300
Subordinated Facility	**11,615**	11,558
Revolving Facility	**8,513**	19,203
Acquisition Facility	**4,786**	4,982
Private Placement	**7,377**	—
Finance loans	**178**	206

10. Financial Instruments and Fair Value Measurements - continued

Investment in AceAge Inc. ("AceAge")

The Company has measured its investment in AceAge at fair value through profit and loss in accordance with IFRS 9. The Company has concluded that cost is representative of the fair value of the investment as at June 30, 2019 and will continue to perform an assessment at each reporting date to determine if cost is still the best estimate of fair value at that time. There were no indicators of impairment as at June 30, 2019.

Credit risk

The Company is exposed to credit risk to the extent that its clients become unable to meet their payment obligations. The Company's exposure to concentrations of credit risk is limited. Trade receivables include amounts receivable from the sale of goods and services to government agencies, employers, insurance companies and individual patients.

Trade and other receivables aging (net of provision) was as follows:

	June 30, 2019	December 31, 2018
	$	$
0-30 days	**9,298**	9,873
31-60 days	**924**	883
61-90 days	**123**	195
Over 90 days	**850**	769
	11,195	11,720

Included in trade and other receivables as at June 30, 2019 are $3,933 (December 31, 2018 - $3,995) of amounts receivable from government funding related to product sales and services rendered.

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

	June 30, 2019	December 31, 2018
	$	$
Provision, beginning of period	**218**	200
Amounts classified as held for sale	**—**	(6)
Provision for receivables impairment	**97**	142
Write-offs charged to the valuation allowance	**—**	(118)
Provision, end of period	**315**	218

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

10. Financial Instruments and Fair Value Measurements - continued

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash, another financial asset or equity instrument. The following table presents the contractual terms to maturity of the financial liabilities owned by the Company as at June 30, 2019:

	Total	2019	2020-2021	2022-2023	Thereafter
	$	$	$	$	$
Trade payables and other liabilities	**17,323**	17,323	—	—	—
Term Facility	**52,175**	52,175	—	—	—
Subordinated Facility	**11,615**	11,615	—	—	—
Acquisition Facility	**4,786**	4,786	—	—	—
Revolving Facility	**8,513**	8,513	—	—	—
Finance loans	**178**	28	110	40	—
Private Placement	**17,400**	540	2,160	2,160	12,540
Finance leases	**13,223**	1,129	4,236	3,402	4,456
Interest payments on borrowings	**20,888**	3,510	12,785	4,053	540
Contingent consideration	**5,660**	3,577	1,011	1,072	—
Total	**151,761**	**103,196**	**20,302**	**10,727**	**17,536**

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

Interest rate risk

Interest rate risk is the risk borne by an interest bearing asset or liability as a result of fluctuations in interest rates. The Company is exposed to interest rate risk through its floating rate Revolving Facility and Term Facility, whose interest rates are based on the prime rate. This risk is partially mitigated by the Company's interest rate swap.

As at June 30, 2019, a 1% change in the variable interest rates on the average balances for the six month period ended June 30, 2019 would have resulted in an annualized change in interest expense of $371 (June 30, 2018 - $394).

Currency risk

Virtually all of the Company’s transactions are denominated in Canadian dollars. As at June 30, 2019 and December 31, 2018, the Company held no significant financial instruments that were denominated in a currency other than Canadian currency.

11. Related Party Transactions and Balances

A collective group of officers and directors own 77,871,702 common shares or approximately 36.0% of the issued and outstanding common shares of the Company as at June 30, 2019, of which Global Healthcare Investments and Solutions, Inc. ("GHIS") and entities controlled by and related to the shareholders of GHIS, own a significant portion. This ownership percentage disclosed assumes the issuance of 4,554,232 escrowed and restricted shares in the total common shares considered to be outstanding.

In addition, a director helps manage funds that own the Preferred Shares issued through the Private Placement on March 12, 2019 (note 7).

Related party transactions

In the normal course of operations, the Company may enter into certain related party transactions, which may include transactions entered into with Company directors and management. All related party transactions would be for consideration established with the related parties, generally on market terms, and approved by the independent non-executive directors of the Company, including the transactions described below.

One of the former Board members, who ceased to be a member of the Board during the three month period ended June 30, 2019, is assisting management on an interim basis. Included in the results for the three and six month periods ended June 30, 2019 are $45 and $90, respectively (2018 - $45 and $90) of consulting fees related to this arrangement. Included in trade payables and other liabilities as at June 30, 2019 is $15 (December 31, 2018 - $15) due to the former Board member for consulting fees.

12. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	For the three month periods ended June 30,		**For the six month periods ended June 30,**	
	2019	2018 (Note 15)	**2019 (Note 15)**	2018 (Note 15)
	$	$	**$**	**$**
Employee costs	**2,794**	3,162	**5,566**	6,343
Other operating expenses	**3,265**	3,199	**6,412**	6,652
Corporate office expenses	**1,463**	1,435	**2,944**	2,685
Depreciation and amortization[2]	**2,285**	1,775	**4,493**	3,590
Share-based compensation expense	**382**	274	**857**	732
Loss (gain) on disposal of property, equipment and intangible assets	**1**	2	**(3)**	2
Total	**10,190**	9,847	**20,269**	20,004

[2] Comparative figures reflect a retroactive adjustment for intangibles amortization related to the purchase price allocations finalized in Q3 2018.

13. Transaction, Restructuring and Other Costs

Transaction, restructuring and other costs are expensed as incurred. Transaction costs are comprised primarily of legal, consulting, due diligence and other professional fees directly related to business combinations and divestitures. 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 and other costs include legal, consulting and other professional fees associated with business restructuring, costs associated with new customer contract implementation, as well as severance and other costs associated with corporate reorganization and other staffing reductions.

Transaction, restructuring and other costs for the three and six month periods ended June 30, 2019 and 2018 consist of the following:

	For the three month periods ended June 30,		For the six month periods ended June 30,	
	2019	2018	**2019**	2018
	$	$	**$**	$
Transaction and start-up costs	**132**	99	**206**	114
Restructuring and other costs	**570**	802	**1,174**	1,285
Total	**702**	901	**1,380**	1,399

As at June 30, 2019, the Company had accrued liabilities from continuing operations related to severance of $808 (December 31, 2018 - $1,183) included in trade payables and other liabilities. For the six months period ended June 30, 2019 the movements in severance accruals were as follows:

	$
Balance at December 31, 2018	**1,183**
Additions	**503**
Payments	**(878)**
Balance at June 30, 2019	**808**

14. Interest Expense

Interest expense for the three and six month periods ended June 30, 2019 and 2018 is comprised of the following:

	For the three month periods ended June 30,		For the six month periods ended June 30,	
	2019	2018	**2019**	2018
	$	$	**$**	$
Interest on Term Facility	**1,176**	968	**2,279**	1,904
Accretion on Term Facility	**386**	—	**689**	(19)
Interest on Subordinated Facility	**520**	258	**1,058**	513
Accretion on Subordinated Facility	**115**	259	**211**	429
Interest on Revolving Facility	**280**	246	**667**	568
Interest on Acquisition Facility	**107**	88	**216**	88
Interest on finance leases	**226**	8	**526**	12
Interest on Private Placement	**315**	—	**315**	—
Accretion on Private Placement	**87**	—	**87**	—
Total interest expense	**3,212**	1,827	**6,048**	3,495

15. Discontinued Operations

The results from discontinued operations below have been segmented to align with the historical operating segments of the Company. The composition of segmented discontinued operations is as follows:

- **Pharmacy** discontinued operations includes three retail pharmacy operations located in Medicine Hat, Alberta, Richmond, British Columbia and Grande Prairie, Alberta.
- **Surgical and Medical Centres** discontinued operations includes the Surgical and Medical Centres operating segment classified as held for sale. The Surgical and Medical Centres operating segment includes one of Canada's largest independent surgical providers with five facilities across four provinces as well as the Performance Orthotics business in Ontario.

On February 14, 2019, the Company completed the sale of the assets of the retail pharmacy operation in Medicine Hat, Alberta for proceeds of $2,286, resulting in a gain on sale of $357. Transaction costs incurred related to the sale of the assets were $122.

On June 23, 2019 the Company completed the sale of the assets of the retail pharmacy operation in Grand Prairie, Alberta for proceeds of $2,127, resulting in a gain on sale of $267. The transaction costs incurred related to the sale of the assets were $64.

Subsequent to end of the second quarter of 2019, on August 9, 2019, the Company signed a definitive agreement to sell the Surgical and Medical Centres business for a cash purchase price of $35,000 (note 1).

The continuity of assets and liabilities of the disposal groups held for sale is as follows:

	Held for sale as at December 31, 2018			Held for sale as at June 30, 2019		
	Pharmacy $	Surgical and Medical Centres $	As at December 31, 2018 $	Pharmacy Assets Sold $	Movements $	As at June 30, 2019 $
Accounts receivable	—	2,466	2,466	—	46	2,512
Inventory	156	1,167	1,323	(246)	76	1,153
Prepaid expenses	—	201	201	—	99	300
Property and equipment	13	3,823	3,836	(127)	8,242	11,951
Intangible assets	583	2,919	3,502	(1,199)	618	2,921
Deferred tax assets	—	662	662	—	(499)	163
Goodwill	1,079	11,234	12,313	(2,104)	425	10,634
Total Assets of Disposal Groups Held For Sale	**1,831**	**22,472**	**24,303**	**(3,676)**	**9,007**	**29,634**
Trade payables and accrued liabilities	—	3,200	3,200	—	(457)	2,743
Deferred lease incentives	—	653	653	—	(653)	—
Finance leases	—	8	8	—	8,235	8,243
Deferred tax liabilities	—	324	324	—	327	651
Total Liabilities of Disposal Groups Held For Sale	**—**	**4,185**	**4,185**	**—**	**7,452**	**11,637**

Included in trade and other receivables as at June 30, 2019 are $612 (December 31, 2018 - $421) of amounts receivable from government funding related to services rendered.

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable income is probable. As at June 30, 2019, the Surgical and Medical Centres business had losses amounting to $11,560 (December 31, 2018 - $14,791) that can be carried forward against future taxable income. Based on projections for future taxable income over the periods in which the losses should be available, a deferred income tax asset of nil (December 31, 2018 - $271) was recognized, while the remaining portion of the losses resulted in unrecognized deferred income tax assets of $3,072 (December 31, 2018 - $2,773).

15. Discontinued Operations - continued

Results from discontinued operations

The results from discontinued operations for the three and six month periods ended June 30, 2019 and 2018 are as follows:

	For the three month period ended June 30, 2019			For the six month period ended June 30, 2019		
	Pharmacy $	Surgical and Medical Centres $	Total $	Pharmacy $	Surgical and Medical Centres $	Total $
Revenues	1,230	10,116	**11,346**	2,649	19,411	**22,060**
Expenses	1,294	8,826	**10,120**	2,620	17,015	**19,635**
Impairments	—	600	**600**	—	600	**600**
Gain on sale of business	(198)	—	**(198)**	(624)	—	**(624)**
Interest expense	—	221	**221**	—	448	**448**
Income before income taxes from discontinued operations	**134**	**469**	**603**	**653**	**1,348**	**2,001**
Income tax expense	—	680	**680**	—	1,067	**1,067**
Net income from discontinued operations	134	(211)	**(77)**	653	281	**934**

	For the three month period ended June 30, 2018			For the six month period ended June 30, 2018		
	Pharmacy $	Surgical and Medical Centres $	Total $	Pharmacy $	Surgical and Medical Centres $	Total $
Revenues	1,725	12,150	**13,875**	3,677	23,083	**26,760**
Expenses	1,699	10,492	**12,191**	3,587	20,438	**24,025**
Impairments	2,000	—	**2,000**	2,000	—	**2,000**
Income (loss) before income taxes from discontinued operations	**(1,974)**	**1,658**	**(316)**	**(1,910)**	**2,645**	**735**
Income tax expense (recovery)	(109)	248	**139**	(119)	423	**304**
Net income (loss) from discontinued operations	(1,865)	1,410	**(455)**	(1,791)	2,222	**431**

The cash flows from discontinued operations for the six month periods ended June 30, 2019 and 2018 are as follows:

	For the six month periods ended June 30,	
	2019	2018
	$	$
Operating cash flows	**2,144**	2,573
Investing cash flows	**(178)**	(116)
Financing cash flows	**(796)**	(209)
Total cash flows	**1,170**	2,248

16. 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, and the completion of acquisitions or divestitures. 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.

17. Supplementary Disclosure to the Consolidated Statements of Cash Flows

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

	For the six month periods ended June 30,	
	2019	2018
	$	$
Trade and other receivables	**145**	2,124
Inventories	**(277)**	590
Prepaid expenses	**(28)**	(345)
Trade payables and other liabilities	**(1,284)**	(1,882)
Total	**(1,444)**	487

18. Revision of Prior Period Comparatives

A review of the Company's application of IFRS 9 on the modifications of its credit agreements was undertaken in the first quarter of 2019. Upon completing this review, the Company revised its December 31, 2018 comparative financial statements to reflect an understatement of its borrowing liability of $3,320 as a result of overstatements to the unaccreted discounts on its Term Facility and Subordinated Facility. This understatement resulted in a corresponding understatement of interest expense (accretion expense) of $3,320, an understatement of deferred tax assets of $896 and an associated understatement of income tax recoveries of $896.

The Company assessed the materiality of this adjustment and concluded that it was not material to any of the previously issued consolidated financial statements. As a result, the Company revised comparative balances in these statements for these changes. The factors that it considered when assessing materiality were that: the changes did not have an impact on the Credit Facilities; there was no impact to the Company's financial covenants; these adjustments were non-cash in nature; there were no changes to the consolidated statement of cash flows for the total impact on operating, investing and financing activities; there was no impact on the Company's assessment of going concern or classification of borrowings as a current liability; there was no impact to revenue; and there was no impact to management's compensation (i.e., performance targets).

The following tables present the effect of this correction on individual line items within the Company's consolidated statements of financial position as at December 31, 2018, consolidated statement of income and comprehensive income for the three and nine month periods ended September 30, 2018 and year ended December 31, 2018 and consolidated statement of changes in equity for the year ended December 31, 2018. The Company also made certain presentation changes to the earnings per share to better reflect the impact from continuing operations and earnings for the period, which are reflected below. There was no impact of these changes to the balance sheet as of January 1, 2018 and accordingly the presentation of an opening balance sheet was not considered necessary.

18. Revision of Prior Period Comparatives - continued

Adjustments to the Consolidated Statements of Financial Position and Consolidated Statements of Changes in Equity

	As at December 31, 2018		
	As previously reported	Adjustments	As revised
Deferred income tax assets	5,194	896	6,090
Current portion of borrowings	85,778	3,320	89,098
Deficit	(170,222)	(2,424)	(172,646)

Adjustments to the Consolidated Statements of Income and Comprehensive Income

	For the 3 months ended September 30, 2018			For the 9 months ended September 30, 2018		
	As previously reported	Adjustments	As revised	As previously reported	Adjustments	As revised
Interest expense	1,821	2,781	4,602	5,316	2,781	8,097
Income tax recovery	(3,122)	(751)	(3,873)	(3,814)	(751)	(4,565)
Net loss from continuing operations	(777)	(2,030)	(2,807)	(23,274)	(2,030)	(25,304)
Net loss	(871)	(2,030)	(2,901)	(23,415)	(2,030)	(25,445)
Net loss attributable to shareholders of Centric Health Corporation	(899)	(2,030)	(2,929)	(23,516)	(2,030)	(25,546)
Basic and diluted earnings per common share attributable to shareholders of Centric Health Corporation:						
From continuing operations	0.00		(0.01)	(0.12)		(0.13)
From earnings for the period	0.00		(0.01)	(0.12)		(0.13)

	For the year ended December 31, 2018		
	As previously reported	Adjustments	As revised
Interest expense	7,385	3,320	10,705
Income tax recovery	(3,326)	(896)	(4,222)
Net loss from continuing operations	(34,388)	(2,424)	(36,812)
Net loss	(31,093)	(2,424)	(33,517)
Net loss from continuing operations attributable to shareholders of Centric Health Corporation	(34,388)	(2,424)	(36,812)
Basic and diluted earnings per common share attributable to shareholders of Centric Health Corporation:			
From continuing operations	(0.17)		(0.18)
From earnings for the period	(0.15)		(0.17)