



QUANTUM INTERNATIONAL INCOME CORP

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended August 31, 2015 and August 31, 2014

(in U.S. Dollars)

(Unaudited)

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QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Financial Statements
(Unaudited)

Management Comments

These Condensed Interim Consolidated Financial Statements of Quantum International Income Corp. for the three and six months period ended August 31, 2015 and all the information contained in this interim financial report are the responsibility of management and have been approved by the Board of Directors.

October 31, 2015

Signed: (signed) Manu Sekhri
Manu Sekhri
Chief Executive Officer

QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(All amounts in U.S. dollars)

| | August 31, 2015 \$ | February 28, 2015 \$ |
|---|--------------------------|----------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 777,517 | 520,594 |
| Accounts receivable (Note 6) | 734,274 | 513,117 |
| Medical supplies | 143,824 | 59,238 |
| Prepaid expenses and other | 26,219 | 38,347 |
| Assets held for sale (Note 4) | 176,379 | - |
| Total current assets | 1,858,213 | 1,113,296 |
| Non-current assets | | |
| Advances to related parties | 3,951 | 9,713 |
| Long term deposits | 198,665 | 169,404 |
| Property and equipment | 1,413,922 | 1,532,556 |
| Intangible assets (Note 4) | 3,162,957 | 1,788,714 |
| Goodwill (Note 4) | - | 131,376 |
| Total non-current assets | 4,779,495 | 3,631,763 |
| TOTAL ASSETS | 6,637,708 | 4,763,059 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Accounts payable and other liabilities | 2,770,247 | 2,058,122 |
| Liabilities held for sale (Note 4) | 208,566 | - |
| Current portion of lease obligation | 20,554 | 19,908 |
| Income tax payable | - | 2,614 |
| | 2,999,367 | 2,080,644 |
| Lease obligation net of current portion | 30,817 | 42,701 |
| Total liabilities | 3,030,184 | 2,123,345 |
| Equity | | |
| Share capital (Note 7) | 19,809,940 | 13,405,158 |
| Contributed surplus (Note 8) | 1,018,793 | 732,342 |
| Accumulated other comprehensive income | 2,102,083 | 2,107,318 |
| Deficit | (18,695,513) | (13,117,661) |
| Equity attributable to owners | 4,235,303 | 3,127,157 |
| Non-controlling interest | (627,779) | (487,443) |
| Total equity | 3,607,524 | 2,639,714 |
| TOTAL LIABILITIES AND EQUITY | 6,637,708 | 4,763,059 |

ON BEHALF OF THE BOARD

(signed) Manu Sekhri

Manu Sekhri, Director

(signed) Doug Stuve

Doug Stuve, Director

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

QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Income Statement
(Unaudited)
(All amounts in U.S. dollars)

| | Three months ended | | Six months ended | |
|--|---------------------------|-------------------|-------------------------|-------------------|
| | August 31, | August 31, | August 31, | August 31, |
| | 2015 | 2014 | 2015 | 2014 |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| Net patient revenue | 507,485 | - | 1,310,441 | - |
| Net management fees | 160,929 | - | 160,929 | - |
| | 668,414 | | 1,471,370 | |
| Operating and other expenses | | | | |
| General and administrative expenses (Note 9) | (5,486,093) | (1,271,581) | (6,904,487) | (1,550,269) |
| Finance income | 31 | 1,253 | 360 | 1,253 |
| Finance costs | (54,909) | (2,903) | (58,624) | (7,609) |
| Gain (loss) on foreign exchange | 13,462 | (1,598) | 58,224 | (3,543) |
| | (5,527,509) | (1,274,829) | (6,904,527) | (1,560,168) |
| LOSS FROM CONTINUING OPERATIONS BEFORE TAXES | | | | |
| | (4,859,095) | (1,274,829) | (5,433,157) | (1,560,168) |
| Income taxes (Note 11) | | | | |
| Current | - | - | - | - |
| NET LOSS FROM CONTINUING OPERATIONS | | | | |
| | (4,859,095) | (1,274,829) | (5,433,157) | (1,560,168) |
| Net gain (loss) from discontinued operations (Note 4) | | | | |
| | 10,620 | - | (282,413) | - |
| NET LOSS | | | | |
| | (4,848,475) | (1,274,829) | (5,715,570) | (1,560,168) |
| Attributable to: | | | | |
| Owners (Note 4) | (4,731,197) | (1,274,829) | (5,577,852) | (1,560,168) |
| Non-controlling interest | (117,278) | - | (137,718) | - |
| | (4,848,475) | (1,274,829) | (5,715,570) | (1,560,168) |
| Earnings (loss) per share attributable to owners (Note 4) | | | | |
| Basic and diluted (Note 12) | (0.06) | (0.05) | (0.08) | (0.07) |
| Weighted average common shares issued and outstanding (Note 12) | | | | |
| | 74,946,387 | 26,173,587 | 69,138,053 | 23,255,977 |

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

QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income
(Unaudited)
(All amounts in U.S. dollars)

| | Three months ended | | Six months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | August 31, 2015 | August 31, 2014 | August 31, 2015 | August 31, 2014 |
| | \$ | \$ | \$ | \$ |
| Loss | (4,848,475) | (1,274,829) | (5,715,570) | (1,560,168) |
| Foreign currency translation reserve | (7,928) | - | (7,853) | 17,514 |
| Other comprehensive income (loss) | (7,928) | - | (7,853) | 17,514 |
| NET LOSS AND COMPREHENSIVE LOSS | (4,856,403) | (1,274,829) | (5,723,423) | 1,542,654 |
| Attributable to: | | | | |
| Owners | (4,736,483) | (1,274,829) | (5,583,087) | 1,542,654 |
| Non-controlling interest | (119,920) | - | (140,336) | - |
| | (4,856,403) | (1,274,829) | (5,723,423) | 1,542,654 |

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

QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
(All amounts in U.S. dollars)

| | Attributable to Owners | | | | Total | Non-controlling Interest | Total Equity |
|--|------------------------|---------------------|--------------|--|-------------|--------------------------|--------------|
| | Share Capital | Contributed Surplus | Deficit | Accumulated Other Comprehensive Income | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance as at February 28, 2014 | 6,752,638 | 657,731 | (9,960,091) | 2,096,581 | (453,141) | - | (453,141) |
| Equity issuance (Note 7) | 6,939,844 | - | - | - | 6,939,844 | - | 6,939,844 |
| Share based payments (Note 8) | 15,998 | 56,224 | - | - | 72,222 | - | 72,222 |
| Warrants exercised (Note 7) | 56,934 | - | - | - | 56,934 | - | 56,934 |
| Share issuance costs (Note 7) | (680,167) | - | - | - | (680,167) | - | (680,167) |
| Net loss for the period | - | - | (1,560,168) | - | (1,560,168) | - | (1,560,168) |
| Recycle foreign currency translation to income | - | - | - | 61,451 | 61,451 | - | 61,451 |
| Balance as at August 31, 2014 | 13,085,247 | 713,955 | (11,520,259) | 2,158,032 | 4,436,975 | - | 4,436,975 |
| Balance as at February 28, 2015 | 13,405,158 | 732,342 | (13,117,661) | 2,107,318 | 3,127,157 | (487,443) | 2,639,714 |
| Equity issuance (Note 7) | 6,066,775 | - | - | - | 6,066,775 | - | 6,066,775 |
| Share based payments (Note 8) | - | 286,451 | - | - | 286,451 | - | 286,451 |
| Warrants exercised (Note 7) | 1,471,641 | - | - | - | 1,471,641 | - | 1,471,641 |
| Share issuance costs (Note 7) | (1,133,634) | - | - | - | (1,133,634) | - | (1,133,634) |
| Net loss for the period | - | - | (5,577,852) | - | (5,577,852) | (137,718) | (5,715,570) |
| Other comprehensive income | - | - | - | (5,235) | (5,235) | (2,618) | (7,853) |
| Balance as at August 31, 2015 | 19,809,940 | 1,018,793 | (18,695,513) | 2,102,083 | 4,235,303 | (627,779) | 3,607,524 |

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

QUANTUM INTERNATIONAL INCOME CORP**Condensed Interim Consolidated Statements of Cash Flows***(Unaudited)**(All amounts in U.S. dollars)*

| | August 31, 2015 | August 31, 2014 |
|--|----------------------------|----------------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss | (5,715,570) | (1,560,568) |
| Items not affecting cash | | |
| Amortization of property and equipment and intangible assets | 341,317 | - |
| Amortization of transaction costs on short term debt | 30,000 | - |
| Impairment of MME net of impairment reversal | 131,376 | - |
| Impairment of assets | 2,602,886 | - |
| Vesting of stock based compensation | 286,451 | - |
| Net change in non-cash operating working capital of discontinued operation | 74,018 | - |
| Net change in non-cash operating working capital (Note 15) | (644,628) | 769,613 |
| Cash flows used in operating activities | (2,894,148) | (790,955) |
| INVESTING ACTIVITIES | | |
| Recovery of cash held in trust | - | 656 |
| Acquisition of MME interest, net of cash acquired | - | 27,546 |
| Purchase of Roseland Assets | - | (3,300,000) |
| License transfer costs | - | (58,000) |
| Cash classified as held for sale | (132,779) | - |
| Deposit on potential acquisitions | (1,080,000) | - |
| Loan advances to IHS Haileah | (109,070) | - |
| Acquisition of property and equipment | (44,095) | - |
| Cash flows used in investing activities | (1,365,944) | (3,329,798) |
| FINANCING ACTIVITIES | | |
| Net proceeds from short term debt | 1,970,000 | - |
| Repayments of short term debt | (2,000,000) | - |
| Proceeds from share issuance | 3,094,462 | 6,939,844 |
| Share issuance cost | - | (607,945) |
| Proceeds from warrants exercised (Note 7) | 1,471,641 | 56,934 |
| Finance lease repayment | (11,238) | - |
| Cash flows from financing activities | 4,524,865 | 6,388,833 |
| Net change in cash and cash equivalents | 264,773 | 2,268,080 |
| Cash and cash equivalents, beginning of period | 520,594 | 46,017 |
| Foreign exchange impact on cash | (7,850) | 67,323 |
| Cash and cash equivalents, end of period | 777,517 | 2,381,420 |
| Supplemental information | | |
| Interest received | 360 | 1,253 |
| Interest paid | (58,624) | (143,509) |

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

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended August 31, 2015
(amounts in U.S. dollars, unless otherwise stated)

1. REPORTING ENTITY

Quantum International Income Corp. (“Quantum” or the “Company”) is a Healthcare company focused on delivering national integrated health solutions in the United States. The Company seeks to back management teams with strong operational track records and deep healthcare experience. The Company intends for acquired businesses or assets to fit synergistically within a strategic framework, have a proven operating history, opportunities for standalone growth and, potentially in some cases, national expansion. Potential acquisition targets will be in various related areas of the US healthcare industry in different geographic regions to allow for diversification. Overall, Quantum seeks to integrate and grow business in order to generate capital appreciation and, potentially in the future, stable distributions to its shareholders.

The investment in MME and acquisition of Roseland assets described in Note 4 were completed effective August 28, 2014 in connection with a change of business transaction. Reactivation on the TSX Venture Exchange (the “Exchange”) occurred on September 24, 2014.

Effective March 14, 2014, the name of the Company changed from “E.G. Capital Inc.” to “Quantum International Income Corp”.

The primary office is located at 79 Wellington St. West, Suite 1630, Toronto ON, M5K 1H1.

The consolidated financial statements of the Company as at August 31, 2015 comprise the Company and its subsidiaries (collectively the “Group”). The Company’s operating subsidiaries and ownership interests are as follows:

| | <u>Ownership interest</u> |
|---|---------------------------|
| Quantum CSS Holdings Corp (“CSS-H”) | 100 % |
| Centers for Special Surgery, LLC (“CSS”) | 50 % |
| Center for Special Surgery of Essex County, LLC (“CSS-Essex”) | 50 % |
| Provmark LLC (“Provmark”) | 100 % |
| Quantum Anesthesia Management, LLC (“QAM”) | 100 % |
| DA Management NJ, Inc. (“Anesthesia”) | 100 % |

CSS is a Delaware limited liability company, CSS-Essex is a New Jersey limited liability company, Provmark is a Florida limited liability company, Quantum Anesthesia Management is a Delaware limited liability company, and DA Management NJ, Inc. is a New Jersey corporation.

2. BASIS OF PREPARATION

(a) Going concern

The financial statements are prepared on a going concern basis. Due to the operating losses incurred at the consolidated level, working capital deficiency and the Company failing to satisfy the release conditions prior to the release deadline of the bought deal financing (Note 16), the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitability at the consolidated levels. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Additional losses could be recorded shall the Company be unable to realize its assets and discharge of its obligations in a going concern basis

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended August 31, 2015
(amounts in U.S. dollars, unless otherwise stated)

2. BASIS OF PREPARATION (CONT'D)

(b) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated financial statements were prepared using accounting policies consistent with our audited consolidated financial statements for the year ended February 28, 2015. These unaudited condensed interim consolidated financial statements do not include all of the information required for annual financial statements prepared under International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended February 28, 2015.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on October 31, 2015.

(c) Basis of measurement

These consolidated financial statements have been prepared on an accrual basis and under the historical cost basis except as permitted by IFRS and as otherwise indicated within these notes.

(d) Functional and presentation currency

The Company's consolidated financial statements are presented in United States dollars, which is also the group's functional currency. For each entity the Company determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

(e) Basis of consolidation

The Company uses the direct method of consolidation.

The consolidated financial statements comprise the accounts of the Company and its subsidiaries.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(f) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended August 31, 2015
(amounts in U.S. dollars, unless otherwise stated)

2. BASIS OF PREPARATION (CONT'D)

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

- i) the fair value of assets and liabilities acquired (Note 4),
- ii) the fair value of warrants issued in settlement of agent's fees (Note 7), and
- iii) deferred tax assets that are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized
- iv) useful lives and recoverable values of property plant and equipment and intangible assets
- v) control over CSS and CSS-Essex and IHS Haileah due to reasons other than percentage of ownership (Note 3)
- vi) patient revenue is estimated in the period in which the related services are rendered. The amount is adjusted as required in subsequent periods based on final settlements and collections.
- vii) Net management fees are estimated at the recoverable amount. Though billing for management fee is a fixed amount the revenue is recorded at the net profit amount of the anesthesia provider Metro PC, which can be lower than the total amounts billed
- viii) valuation of stock based compensation
- ix) Recoverable amounts of deposits on potential acquisitions and anesthesia intangible asset

3. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

These consolidated financial statements include the accounts of the Company and all domestic and foreign subsidiary companies. Subsidiaries are those entities which the Company controls by having the power to direct the financial and operating activities and has exposure, or rights, to variable returns from those activities. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Translation of foreign currencies

Earnings of operations are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency at the average rate of exchange prevailing during the month the transaction occurs. Monetary assets and liabilities are translated at the period end rate and any resulting gains and losses are included in the net earnings of the foreign operations.

On consolidation, earnings of operations whose functional currency differs from the USD are translated using the average rate of exchange prevailing during the period. Assets and liabilities are translated at the exchange rate in effect at each period end. The difference between translating assets and liabilities of operations whose functional currency is not the USD at period end rates, and the exchange rates on the date of acquisition of those assets and liabilities is included in Other Comprehensive Income as a foreign currency translation adjustment.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended August 31, 2015
(amounts in U.S. dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value, using the straight-line method over the estimated useful lives of the related assets.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended August 31, 2015
(amounts in U.S. dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The estimated useful lives for depreciation purposes are as follows:

| | |
|--------------------------------|------------|
| Medical equipment | 5-10 years |
| Office furniture and equipment | 5-10 years |
| Vehicles | 5-10 years |
| Computer equipment | 2-5 years |
| Leasehold improvements | Lease term |

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Assets acquired under finance leases are capitalized and depreciated based on the shorter of the remaining useful life of the assets or the length of the lease.

Operating lease payments are recognized as an operating expense in the statement of loss and comprehensive loss on a straight-line basis over the lease term.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortized over the useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

The estimated useful lives of intangible assets are as follows:

| | |
|--|----------|
| ASC operating licenses | 11 years |
| Anesthesia management services agreement | 5 years |

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
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(amounts in U.S. dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of loss and comprehensive loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds such net assets. Goodwill arising on acquisitions is capitalized and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Goodwill is allocated to cash generating units for the purpose of this impairment testing.

Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The Company uses a fair value-based method of accounting for stock options granted to employees, directors, and non-employees. The fair value of the award is determined using the Black-Scholes option pricing model on the date of the grant for employees and fair market value of services rendered for non-employees. For awards with graded vesting, the fair value of each tranche, adjusted for expected forfeitures, is recognized over its respective vesting period as an increase in stock-based compensation expense and the contributed surplus account. When such stock options are exercised, the proceeds received by the Company, together with the respective amount previously recorded in contributed surplus, are credited to share capital.

Revenue

Patient revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Revenue is recognized when performance of services has been complete and collection of amounts billed is reasonably assured.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended August 31, 2015
(amounts in U.S. dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, public company and head office expenses, and income tax assets and liabilities.

Medical supplies

Medical supplies consist of various surgical supplies and medications and are valued at the lower of cost or market value.

Financial assets

Financial assets are classified in one of the following categories: financial assets at fair value through profit and loss, loans and receivables, held to maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets are initially recognized at fair value plus transaction costs in the case of financial assets not at fair value through income. Subsequent remeasurement of financial assets is determined by their designation, which is reassessed at each reporting date.

Financial assets at fair value through income

A financial asset is classified as fair value through profit and loss ("FVTPL") if acquired principally for the purpose of selling in the short-term.

Subsequent to initial measurement, they are carried at fair value and all gains and losses realized and unrealized are recognized in the consolidated statement of income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. The Company's loans and receivables include cash and cash equivalents, accounts receivables and advances to related parties.

Loans and receivables are initially recognized at the amount expected to be received less a discount to reflect the time value of money. Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method less appropriate allowances for doubtful accounts.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are either designated in this category or not classified in any of the other categories.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial liabilities

Financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent to initial measurement, financial liabilities are recognized at amortized cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognized in the consolidated statement of income over the contractual term using the effective interest rate method.

Financial liabilities at amortized cost are further classified as current or non-current depending on whether these fall due within twelve months after the balance sheet date or beyond. Financial liabilities are derecognized when either the Group is discharged from its obligation or the liability expires, is cancelled or replaced by a new liability with substantially modified terms. The Company's financial liabilities at amortized cost include accounts payable and short term debt.

New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended February 28, 2016, and have not been applied in preparing these consolidated financial statements:

IFRS 9, Financial instruments ("IFRS 9")

IFRS 9 replaces International Accounting Standard 39, Financial Instruments: Recognition and Measurement ("IAS 39"), and establishes principles for the financial reporting of financial assets and financial liabilities to permit users to assess the amounts, timing and uncertainty of an entity's future cash flows. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Company is currently assessing the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) issued their joint revenue recognition standard, IFRS 15 Revenue from Contracts with Customers, which replaces all existing IFRS and US GAAP revenue requirements.

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles).

Application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted under IFRS. The Company is currently assessing the impact of IFRS 15 on its consolidated financial statements.

IFRS 11, Joint Arrangements ("IFRS 11")

In May 2014, The International Accounting Standards Board (IASB) published amendments to IFRS 11 Joint Arrangements. IFRS 11 addresses the accounting for interests in joint ventures and joint operations.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are effective for annual periods beginning on or after 1 January 2016. The Company is currently assessing the impact of IFRS 11 on its consolidated financial statements.

4. ACQUISITIONS AND DIVESTITURES

INVESTMENT IN MME

On August 28, 2014 Quantum completed a subscription for securities in the capital of MME that carry a voting interest in MME equivalent to two-thirds of the issued and outstanding voting securities (the "MME Interest"). The consideration paid by Quantum for the MME Interest was \$459,850.

DIVESTITURE FROM MME

During the period, the Company undertook an initiative to divest its interest in MME through a share buy-back agreement.

On March 19, 2015 the CRTC released its decision that would allow subscribers to purchase cable content through pick-and-pay options. The ruling becomes mandatory starting December 2016 and could adversely affect MME business of bundling content. Following the decision, MME was not able to produce meaningful results and after declining performance, management has decided to impair the Cash Generating Unit in the first quarter and subsequently divest from it in the second quarter. Part of the impairment was reversed in the second quarter due to amounts recovered. The impairment charge net of impairment reversal is as follows:

| | Carrying amount | Impairment charge | Recoverable amount |
|----------|----------------------------|------------------------------|-------------------------------|
| | \$ | \$ | \$ |
| Goodwill | 131,376 | (131,376) | - |

The details of the share buy-back arrangement are as follows:

- 1) MME will buy back forty percent (40%) of the Class B shares, or 160 shares from QIIC at cost (i.e. CAD\$ 200,000 or CAD\$ 1,250 per Class B share
- 2) The remaining 240 shares held by QIIC will be converted into:
 - a. a one hundred and fifty thousand dollars (CAD\$ 150,000) Note with the following terms:
 - i. bearing an annual interest rate of twelve percent (12%),
 - ii. twenty four (24) month term, repayment via a cash sweeps on cash collections of thirty percent (30%) of the gross profit on collections. Gross profit on collections being defined the cash collection less the related remittance to suppliers which is due on that specific payment.

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4. ACQUISITIONS AND DIVESTITURES (CONT'D)

- iii. secured by GSA over all assets of the business,
- b. a three (3) year warrant to acquire twenty percent (20%) of MME at a valuation of three hundred thousand dollars (CAD\$ 300,000) exercisable at QIIC's option. MME has the option to purchase the warrant from QIIC during the term.
- 3) Resignation of Grant White and Manu Sekhri from the MME board of directors.

The Company has yet to administratively execute the share buy-back agreement. Consequently, the Company has presented the group of assets and liabilities of MME as held for sale as per IFRS 5, and MME's results of operations as discontinued operations as follows:

- a) Results of discontinued operation

| | Three months ended | | Six months ended | |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | August 31, 2015 \$ | August 31, 2014 \$ | August 31, 2015 \$ | August 31, 2014 \$ |
| Revenue | 36,173 | - | 13,836 | - |
| Expenses | (76,964) | - | (164,873) | - |
| Results from operations | (40,791) | | (151,037) | |
| Impairment of assets net of reversal | 51,411 | - | (131,376) | - |
| Net Income (Loss) | 10,620 | | (282,413) | |

Net gain (loss) attributable to owners:

| | | | | |
|---|--------------------|---|--------------------|---|
| Net gain (loss) from continuing operations attributable to owners | (4,738,277) | - | (5,345,784) | - |
| Net gain (loss) from discontinued operations attributable to owners | 7,080 | - | (232,068) | - |
| Net loss attributable to owners | (4,731,197) | | (5,577,852) | |

Earnings (loss) from continuing operations per share attributable to owners

| | | | | |
|-----------------------------|--------|--------|--------|--------|
| Basic and diluted (Note 12) | (0.06) | (0.05) | (0.08) | (0.07) |
|-----------------------------|--------|--------|--------|--------|

- b) Net assets held for sale:

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4. ACQUISITIONS AND DIVESTITURES (CONT'D)

| | August 31, 2015 |
|--|-----------------|
| | \$ |
| Cash and cash equivalents | 132,779 |
| Trade and other receivables | 24,634 |
| Advances to related parties | 9,231 |
| Prepays and deposits | 4,738 |
| Property & Equipment | 4,997 |
| Total assets held for sale | 176,379 |
| Trade and other payables held for sale | 208,566 |
| Net assets | (32,186) |
| Non-controlling interest | (10,729) |
| Net assets attributable to owners | (21,458) |

ACQUISITION OF ROSELAND ASSETS AND INVESTMENT IN CSS

On August 28, 2014, Quantum closed an asset purchase agreement with Roseland Ambulatory Surgery Center, LLC to purchase assets ("Roseland Assets") including its exclusive ASC license, surgical equipment and supplies on site. The purchase price for the assets was \$3,300,000.

In addition the Company paid license transfer costs of \$58,000 which are included in the cost of the ASC license in intangible assets.

INVESTMENT IN ANESTHESIA

On May 27, 2015, the Company announced that it has created a purpose built subsidiary, Quantum Anesthesia Management LLC., to acquire all the common shares of DA Management NJ Inc.

DA Management NJ Inc. is an anesthesia company with anesthesia administration contracts at all of NYCSA's New York and New Jersey office based clinics as well as the initial CSS facility in Essex County.

The Company issued 9,000,000 common shares as consideration for this transaction on July 23, 2015, the fair value of consideration paid was CAD \$0.41 per share which was the price of the Company's shares on July 2, 2015 the date when all conditions for the transaction have been met. The entire purchase price was allocated to the single intangible asset purchased with DA Management NJ Inc. – the administration service agreement in the amount of \$2,972,313. The transaction has taken effect July 1, 2015.

It was impractical to determine what the revenue and expenses of the acquisition would have been had the transaction taken place on March 1, 2015.

Refer to note 10 for impairment of the intangible asset.

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5. COMMITMENTS

INVESTMENT IN ROCKLAND

On January 9, 2015, the Company announced that its subsidiary, CSS, has signed a definitive agreement to acquire a 90% interest in Advanced Surgery Center, LLC. (“Advanced”) by use of Nominee Agreements, whereby the individual members of CSS will become licensed by the New York State Department of Health in their individual capacity. Under the terms of the Agreement, CSS will acquire a 90% interest in Advanced for \$4,000,000 payable in cash subject to adjustment. Completion of the transaction is subject to the approval of New York State’s Public Health and Health Planning Council and the New York State Department of Health. Advanced is also applying to the New York State Department of Health to become licensed for an additional operating room, which would fit within the existing floorplan of the facility operated by Advanced. Upon receipt of that approval, an additional \$600,000 would be payable to the seller. It is anticipated that the transaction will close within 12 months, depending on the time required for New York State Department of Health’s approval.

6. ACCOUNTS RECEIVABLE

| | August 31, 2015 | February 28, 2015 |
|---|----------------------------|------------------------------|
| | \$ | \$ |
| Trade receivables | 987,704 | 484,654 |
| Allowance for doubtful accounts | (283,162) | - |
| Sales taxes recoverable | 29,732 | 28,463 |
| | <u>734,274</u> | <u>513,117</u> |
| Current | 297,988 | 385,830 |
| Past due 0 to 3 months | 429,241 | 51,952 |
| Past due 3 to 6 months | 96,299 | 46,872 |
| Past due more than 6 months | 164,176 | - |
| Trade receivables | <u>987,704</u> | <u>484,654</u> |
| Opening balance allowance for doubtful accounts | - | - |
| Amounts provided for as reserve | (336,302) | - |
| Amounts written off | 53,140 | - |
| Ending balance allowance for doubtful accounts | <u>(283,162)</u> | <u>-</u> |

The amounts actually collected by the Company from third-party payors are subject to variability due to the nature of out of network payor environment.

Management reviews and evaluates historical final settlements on a periodic basis and adjusts the estimated collections on an individual billings basis as required in subsequent periods.

7. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital

The authorized share capital of the Company consists of an unlimited number of voting common shares without par value.

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7. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONT'D)

| | Common Shares | Warrants | Share Capital |
|---|-------------------|-------------------|----------------------|
| Balance as at February 28, 2014 | 19,014,974 | - | \$ 6,752,638 |
| Share consolidation | (17,114,869) | - | |
| Equity issuance | 41,640,128 | 24,233,994 | 6,939,844 |
| Warrants exercised | 4,622,500 | (4,622,500) | 376,845 |
| Share issuance costs | - | - | (680,167) |
| Stock based payments | 360,000 | - | 15,998 |
| Balance as of February 28, 2015 | 48,522,733 | 19,611,494 | \$ 13,405,158 |
| Warrants exercised | 18,577,500 | (18,577,500) | 1,471,641 |
| Equity issuance | 9,524,000 | 4,762,000 | 3,094,462 |
| Equity issuance as part of a business acquisition | 9,000,000 | - | 2,972,313 |
| Share issuance costs | - | - | (1,133,634) |
| Balance as of August 31, 2015 | 85,624,233 | 5,795,994 | 19,809,940 |

Share consolidation

On March 14, 2014, the Company completed a one for ten consolidation of its common shares. The 19,014,974 common shares issued and outstanding prior to the consolidation have been consolidated to approximately 1,900,105 common shares.

Equity issuance

In March 2014, 23,200,000 Units were sold at a price of \$0.04 per Unit for gross cash proceeds of \$1,037,620. Each Unit is comprised of one common share in the capital of the Company ("Unit Shares") and one common share purchase warrant ("Warrants"). Each Warrant will entitle the holder thereof to purchase one common share of the Company at a price of CAD \$0.10 (\$0.09 USD) per common share for a period of 12 months after the date of the issue of the Warrants.

In August 2014, the Company closed a private placement for gross proceeds of \$5,902,224 comprising 18,440,128 common shares at \$0.32 per share.

In July 2015, the Company issued 9,000,000 common shares at CAD \$0.41 for consideration of the Anesthesia Acquisition (Note 4)

Bought deal offering

On June 17, 2015, the Company announced that it has entered into an agreement with Mackie Research Capital Corporation ("Mackie"), as lead underwriter and sole bookrunner on behalf of a syndicate, for the sale on a "bought deal" basis of 47,620,000 subscription receipts of the Company at a price of CAD \$0.42 per subscription receipt for gross proceeds of CAD \$20,000,400. Each subscription receipt converts into one common share and one-half of one common share purchase warrant of the Company. Each warrant entitles the holder thereof to acquire one common share for an exercise price of CAD \$0.65 per warrant for a period of 24 months following the closing. The Company will pay the underwriter a cash commission equal to 6.5% of the gross proceeds of the offering, as additional compensation for the services of the underwriter the Company will grant the underwriter compensation options exercisable at any time up to 24 months following the closing to purchase that number of securities of the Company such number of subscription receipts that is equal to 6.5% of the number of subscription receipts issued pursuant to the bought deal offering.

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7. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONT'D)

As part of the bought deal offering, the underwriter agreement included a clause requiring the release of the first tranche of funds to the Company upon the filing of the final prospectus with the regulatory bodies. On July 28, 2015, the Company announced that it has filed the final prospectus in relation to the bought deal offering and obtained the first tranche of proceeds of \$3,094,462 to be used for working capital purposes with the issuance of 9,524,000 shares and 4,762,000 warrants.

Share issuance costs

The Company incurred \$41,063 of share issuance costs associated with the March 2014 equity issuance. \$25,065 was paid in cash and \$15,998 was paid through common shares of the Company. The value of the shares was determined by the fair market value of the services provided.

The Company incurred \$639,104 of share issuance costs associated with the August 2014 equity issuance. \$582,880 was paid in cash and 1,033,994 warrants were granted in settlement of \$56,224 of agent's commissions. Each warrant allows the holder to purchase one common shares at CAD \$0.35 (\$0.32 USD) per share, for a 24 month period from the date of closing of the private placement. The warrants were valued at the estimated fair market value of the services rendered and charged to contributed surplus.

The Company incurred \$1,133,634 of share issuance costs associated with the bought deal financing announced June 17, 2015. The share issue costs include \$494,075 representing half of the 6.5% cash commission payable to the lead underwriter as well as 619,060 underwriter options representing 6.5% of the subscription receipts issued valued at \$23,521. These underwriter options have not been issued as the date of these statements. Please refer to the subsequent events note for further details.

Share based payments

The Company paid a finder's fee in relation to the March 2014 equity issuance in the amount of \$15,998 which was paid through the issuance of 360,000 additional common shares.

The fair market value of warrants issued in settlement of agent's commission in relation to the August 2014 equity issuance in the amount of \$56,224 was charged to contributed surplus during the period.

Warrants

During the period 18,577,500 warrants were exercised for the purchase of 18,577,500 common shares for total proceeds of \$1,471,641.

As at August 31, 2015, the Company had outstanding warrants as follows:

| Number of warrants | Exercise price | Exercise price (CAD) | Expiry |
|---------------------------|-----------------------|-----------------------------|---------------|
| 1,033,994 | \$0.32 | \$0.35 | 8/28/2016 |
| 4,762,000 | \$0.50 | \$0.65 | 7/28/2017 |

8. SHARE OPTION PLAN

On November 21, 2013, the Company adopted a new "rolling" stock option plan which authorizes the Company to grant options to acquire up to 10% of its issued and outstanding Common Shares, from time to time. Specifically, the Option Plan reserves, for issue pursuant to stock options, a maximum number of Common Shares equal to 10% of the outstanding Common Shares from time to time, with no mandatory vesting provisions. The number of Common Shares reserved for issue to any one person in any 12 month

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8. SHARE OPTION PLAN (CONT'D)

period under the Option Plan may not exceed 5% of the outstanding Common Shares at the time of grant without disinterested shareholder approval.

As part of investor relations agreement with KIN Communications, the Company has agreed to grant 400,000 stock options to the company for its services. The Company has ended its investor relations agreement with KIN Communications on August 31, 2015, KIN Communications has 30 days to exercise its option following termination of agreement.

The Company announced the grant of 7,525,000 options on August 21, 2015. Of the 7,525,000 options granted, 200,000 were previously approved but not granted due to the Company being under a blackout period. The below table summarizes options granted by the Company:

| Number Outstanding | Number Vested | Grant Date | Expiry Date | Exercise Price (\$CAD) | Fair value at Grant Date | Fair value of Vested Options | Expected Volatility | Expected Life | Expected Divided Yield | Risk Free Interest Rate |
|--------------------|---------------|-------------------|-------------------|------------------------|--------------------------|------------------------------|---------------------|---------------|------------------------|-------------------------|
| 500,000 | 166,667 | December 10, 2014 | December 10, 2019 | \$ 0.35 | \$ 55,147 | \$ 23,065 | 44.45% | 5 | 0% | 1.37% |
| 200,000 | 50,000 | August 21, 2015 | August 21, 2020 | \$ 0.35 | \$ 22,687 | \$ 7,122 | 71.28% | 5 | 0% | 0.65% |
| 7,325,000 | 2,441,667 | August 21, 2015 | August 21, 2020 | \$ 0.42 | \$ 768,791 | \$ 256,264 | 71.28% | 5 | 0% | 0.65% |
| 400,000 | 100,000 | August 21, 2015 | August 21, 2020 | \$ 0.35 | \$ - | \$ - | 0.00% | 0.08 | 0% | 0.00% |
| 8,425,000 | 2,758,333 | | | | | | | | | |

9. ADMINISTRATIVE EXPENSES

Components of administrative expenses:

| | Three months ended | | Six months ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | August 31, 2015 | August 31, 2014 | August 31, 2015 | August 31, 2014 |
| | \$ | \$ | \$ | \$ |
| Professional and advisory fees | 879,445 | 930,345 | 1,251,341 | 1,041,377 |
| Management fees | 458,855 | 200,357 | 611,334 | 294,119 |
| Management relocation | 76,010 | - | 76,010 | - |
| Regulatory and filing fees | 69,511 | 29,970 | 101,326 | 54,920 |
| Salaries and benefits | 390,367 | 15,109 | 673,743 | 24,235 |
| Depreciation and amortization | 223,338 | - | 341,318 | - |
| General administrative expenses | 418,660 | 95,800 | 779,252 | 135,618 |
| Medical supplies used during the period | 97,624 | - | 180,824 | - |
| Impairment of assets (Note 10) | 2,602,886 | - | 2,602,886 | - |
| Stock based compensation | 269,397 | - | 286,452 | - |
| | 5,486,093 | 1,271,581 | 6,904,487 | 1,550,269 |

10. IMPAIRMENT OF ASSETS

On May 25, 2015, the Company placed a \$1,000,000 deposit in connection with the potential acquisition of a healthcare facility in the southeastern United States. During the period the Company has transferred the deposit to IHS Haileah, a group of operators intending to operate the facility, for an unsecured loan bearing 15% interest with a \$10 option to purchase IHS Haileah once funding to acquire the facility was in place. The Company also loaned \$109,070 working capital funding to IHS Haileah. The Company was not successful in securing funding for the acquisition of the facility and is no longer pursuing this acquisition. The Company does not believe the loans to IHS Haileah are recoverable.

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10. IMPAIRMENT OF ASSETS (CONT'D)

On May 19, 2015, the Company paid a deposit of \$80,000 for a potential real estate acquisition of a healthcare building in Florida. The deposit is no longer recoverable and was written down.

Following the period end, the Company tested DA Management NJ, Inc. for impairment and noted that the recoverable amount of the intangible asset in the entity is \$1,459,420. The Company recorded a 1,413,816 impairment charge in the period.

11. INCOME TAXES

As at August 31, 2015, the Company has estimated a current year tax loss of \$2,982,055 and a cumulative non-capital losses available to be carried forward in the following jurisdictions: Canada – \$7,689,432, United States – \$1,650,060. The non-capital losses in Canada begin to expire in 2026. The net operating losses in the U.S. begin to expire in 2035. The Company also has net capital losses in Canada of \$4,110,250 CAD.

The income tax benefits relating to the losses in Canada and the U.S. have not been recognized in the consolidated financial statements as the recognition requirements under the liability method of accounting for income taxes have not been met.

The Company has accumulated deductible research and development expenses of CAD \$1,495,251 in Canada that can be carried forward indefinitely.

12. EARNINGS (LOSS) PER SHARE

As the Company incurred a net loss during the three months ended August 31, 2015 and 2014, the loss and diluted loss per common share are based on the weighted-average common shares outstanding during the period. The following outstanding instruments could have a dilutive effect in the future:

| | As at August 31, 2015 |
|--|----------------------------------|
| Common shares issuable on exercise of warrants | 5,795,994 |
| Vested stock options | 2,758,333 |

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13. OPERATING SEGMENTS

Management has identified four reportable business segments. Each of these reporting segments are managed separately and their results are based on internal management information that is regularly reviewed by the chief operating decision maker.

The Company's three reportable business segments are:

- Medical center operation in the USA, operated through CSS and DA Management NJ Inc. ("CSS")
- USA healthcare marketing and distribution, operated through Provmark ("Provmark")
- Corporate expenses and office of the CEO ("Quantum")

Assets of Quantum are held in Canada, all other assets are held in the United States.

| | Three Months Ended August 31, 2015 | | | | |
|--|---|-----------|-------------|----------------------------|-------------|
| | Quantum | Provmark | CSS | Discontinued Operations | Total |
| | \$ | \$ | \$ | \$ | \$ |
| Net patient revenue | - | - | 507,485 | - | 507,485 |
| Management Fees | - | - | 160,929 | - | 160,929 |
| Operating expenses | (2,789,309) | (236,837) | (2,459,947) | - | (5,486,093) |
| Net gain (loss) from operations | (2,789,309) | (236,837) | (1,791,533) | - | (4,817,679) |
| Interest and finance charges | (52,810) | - | (2,068) | - | (54,878) |
| Gain (loss) on foreign exchange | 13,462 | - | - | - | 13,462 |
| Net income (loss) from continuing operations | (2,828,657) | (236,837) | (1,793,601) | - | (4,859,095) |
| Net income (loss) from discontinued operations | - | - | - | 10,620 | 10,620 |
| Net income (loss) | (2,828,657) | (236,837) | (1,793,601) | 10,620 | (4,848,475) |
| Total assets | 853,621 | 23,417 | 5,584,291 | 176,379 | 6,637,708 |
| Total liabilities | 2,210,623 | 49,629 | 561,367 | 208,566 | 3,030,184 |

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13. OPERATING SEGMENTS (CONT'D)

| | Three Months Ended August 31, 2014 | | | | |
|------------------------------|---|----------|-----------|----------------------------|-------------|
| | Quantum | Provmark | CSS | Discontinued Operations | Total |
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | - | - | - | - | - |
| Operating expenses | (1,271,581) | - | - | - | (1,271,581) |
| Net loss from operations | (1,271,581) | - | - | - | (1,271,581) |
| Interest and finance charges | (1,650) | - | - | - | (1,650) |
| Loss on foreign exchange | (1,598) | - | - | - | (1,598) |
| Net loss | (1,274,829) | - | - | - | (1,274,829) |
| Total assets | 1,954,497 | - | 3,894,293 | - | 5,848,790 |
| Total liabilities | 1,831,665 | - | - | - | 1,831,665 |

| | Six Months Ended August 31, 2015 | | | | |
|--|---|-----------|-------------|----------------------------|-------------|
| | Quantum | Provmark | CSS | Discontinued Operations | Total |
| | \$ | \$ | \$ | \$ | \$ |
| Net patient revenue | - | - | 1,310,441 | - | 1,310,441 |
| Management fees | - | - | 160,929 | - | 160,929 |
| Operating expenses | (3,428,412) | (280,063) | (3,196,012) | - | (6,904,487) |
| Net gain (loss) from operations | (3,428,412) | (280,063) | (1,724,642) | - | (5,433,117) |
| Interest and finance charges | (56,195) | - | (2,069) | - | (58,264) |
| Gain (loss) on foreign exchange | 58,224 | - | - | - | 58,224 |
| Net income (loss) from continuing operations | (3,426,383) | (280,063) | (1,726,709) | - | (5,433,157) |
| Net income (loss) from discontinued operations | - | - | - | (282,413) | (282,413) |
| Net income (loss) | (3,426,383) | (280,063) | (1,726,709) | (282,413) | (5,715,570) |
| Total assets | 853,621 | 23,417 | 5,584,291 | 176,379 | 6,637,708 |
| Total liabilities | 2,210,623 | 49,629 | 561,367 | 208,566 | 3,030,184 |

| | Six Months Ended August 31, 2014 | | | | |
|------------------------------|---|----------|-----------|----------------------------|-------------|
| | Quantum | Provmark | CSS | Discontinued Operations | Total |
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | - | - | - | - | - |
| Operating expenses | (1,550,269) | - | - | - | (1,550,269) |
| Net loss from operations | (1,550,269) | - | - | - | (1,550,269) |
| Interest and finance charges | (6,356) | - | - | - | (6,356) |
| Loss on foreign exchange | (3,543) | - | - | - | (3,543) |
| Net loss | (1,560,168) | - | - | - | (1,560,168) |
| Total assets | 1,954,497 | - | 3,894,293 | - | 5,848,790 |
| Total liabilities | 1,831,665 | - | - | - | 1,831,665 |

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14. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel of the Company include the Chief Executive Officer, the President, Chief Financial Officer and all members of the Board of Directors.

Key management personnel compensation:

| | Three months ended | | Six months ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | August 31, 2015 | August 31, 2014 | August 31, 2015 | August 31, 2014 |
| | \$ | \$ | \$ | \$ |
| Management fees paid to corporations controlled by officers | 198,855 | 200,357 | 291,334 | 293,495 |
| Management relocation | 76,010 | - | 76,010 | - |
| Salaries and short term benefits | 50,602 | - | 92,023 | - |
| Director fees | 20,942 | - | 42,089 | - |
| Share based compensation | 269,396 | - | 286,451 | - |

As at August 31, 2015, the Company has accrued management fees payable to corporations controlled by officers and directors of the Company in the amount of \$37,097 (August 31, 2014 - \$nil). The management fees are included in administrative expenses.

Rent paid to a corporation controlled by a director of the Company during the three and six months ended August 31, 2015 in the amount of \$35,054 and 57,361 respectively (three and six months ended August 31, 2014 was \$24,334 and 44,231 respectively). The terms of the rental agreement are month to month and pricing is set at arm's length.

15. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash operating working capital:

| | Six months ended | |
|--|--------------------|--------------------|
| | August 31, 2015 | August 31, 2014 |
| | \$ | \$ |
| Accounts receivable | (536,407) | (22,038) |
| Prepaid expenses and other | (25,184) | (114,337) |
| Supplies | (84,586) | - |
| Advances to related parties | (3,951) | - |
| Accounts payable and other liabilities | 5,500 | 905,988 |
| | (644,628) | 769,613 |

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16. SUBSEQUENT EVENTS

Term promissory note

On October 2, 2015 the Company obtained a \$300,000 unsecured promissory note from a third party (the "Lender"). The note was issued a discount for consideration of \$250,000. The principal is to be repaid on October 31, 2015. If the Company does not prepay the principal amount to the Lender on or before October 31, 2015, the Principal Amount shall be deemed to be \$310,000. If the Company repays the principal amount on or before the maturity date, the interest rate shall be 0% per annum. After the maturity date, the principal amount outstanding at any time, and from time to time, and any overdue interest, shall bear interest at 15% per annum, both before and after demand, default, and judgment. Such interest shall be calculated monthly not in advance when not in default and, after default, payable on demand.

Bought deal financing

On October 28, 2015, the Company announced that further to its prospectus offering (the "Offering") of 47,620,000 subscription receipts of the Company ("Subscription Receipts") at a price of CAD \$0.42 per Subscription Receipt (the "Offering Price"), which closed on July 28, 2015 (the "Closing Date"), the Company was not able to satisfy the release conditions prior to the release date of October 26, 2015. Accordingly, the Company is obligated to return to the holders of 38,096,000 Subscription Receipts an amount equal to the Offering Price per Subscription Receipt. The Company is currently working with the subscription receipt agent to satisfy this obligation but does not expect to be in position to return an amount equal to the full Offering Price per Subscription Receipt currently outstanding to the holders thereof by November 2, 2015, being the timeframe prescribed by the agreement governing the outstanding Subscription Receipts.

Acquisition of LTACH

On October 28, 2015, the Company announced that as a result of not satisfying the release conditions of the bought deal financing, the Company is not in a position to complete the Proposed LTACH Acquisition.

Termination of asset management agreement

On October 28, 2015 the Company announced that the independent directors of the Company unanimously voted to terminate the asset management agreement with QIAM upon 30 days' notice to the External Manager. The board of directors of the Company has also appointed Manu Sekhri as Chief Executive Officer replacing Grant White in that role. It is expected that Manu Sekhri will enter into an employment agreement with the Company on terms to be agreed.