Fourth Quarter 2015

Management's Discussion and Analysis
For the Three and Twelve Months Ended November 30, 2015

Convalo Health International, Corp.

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Convalo Health International, Corp. ("Convalo" or the "Company"), prepared as of January 22nd, 2016, should be read in conjunction with the unaudited consolidated financial statements for the fourth quarter ended November 30, 2015, including the notes therein. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise specified, all financial data is presented in Canadian dollars.

Additional information relevant to the Company is available for review on SEDAR at www.sedar.com.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this report may contain forward-looking statements. This information may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "plan," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Readers are cautioned regarding statements discussing profitability; growth strategies; anticipated trends in our industry; our future financing plans; and our anticipated needs for working capital. Actual events or results may differ materially from those discussed in forward-looking statements. There can be no assurance that the forward-looking statements contained in this report will in fact occur. The Company bases its forward-looking statements on information currently available to it, and assumes no obligation to update them.

THE FORWARD-LOOKING INFORMATION CONTAINED IN THIS MD&A PRESENTS THE EXPECTATIONS OF THE COMPANY AS OF THE DATE OF THIS MD&A AND, ACCORDINGLY, IS SUBJECT TO CHANGE AFTER SUCH DATE. READERS SHOULD NOT PLACE UNDUE IMPORTANCE ON FORWARD-LOOKING INFORMATION AND SHOULD NOT RELY UPON THIS INFORMATION AS OF ANY OTHER DATE. WHILE THE COMPANY MAY ELECT TO, THE COMPANY DOES NOT UNDERTAKE TO UPDATE THIS INFORMATION AT ANY PARTICULAR TIME EXCEPT AS REQUIRED BY APPLICABLE SECURITIES LEGISLATION.

(Expressed in Canadian dollars in thousands)

4th QUARTER HIGHLIGHTS

→ Opened a new Outpatient facility ("IOP") in West Los Angeles and a Detox facility in Corona, California
→ Continued the integration of the June 30, 2015 acquisitions of Harmony Hollywood, LLC and Accredited Rehab Treatments Services, LLC, which included the exiting of Sober Living facilities and consolidating two Hollywood IOPs
→ Increased cash on the Balance Sheet to $23,840 from $1,841 at the end of fiscal 2014
→ Generated revenues for the fourth quarter ended November 30, 2015 of $8,072, as compared to $5,674 in the previous quarter, an increase of 42%
→ Gross profits of $4,409 for the fourth quarter ended November 30, 2015 up from $3,649 in the 3rd quarter
→ Adjusted EBITDA before new facility start-up cost of $1,256 for the fourth quarter ended November 30, 2015, as compared to $1,066 in the third quarter
→ Changed the Company's year-end to February 28th/29th

SELECTED FOURTH QUARTER INFORMATION

	Three Months Ended November 30, 2015	**Three Months Ended November 30, 2014**	**Twelve Months Ended November 30, 2015**	**Twelve Months Ended November 30, 2014**
Revenue	$8,072	$345	$17,266	$781
Gross Margin	54.6%	50.4%	62.9%	57.2%
Adjusted EBITDA before new facility start-up costs *(1)*	$1,256	($441)	$3,026	($817)
Adjusted EBITDA *(1)*	$1,161	($441)	$2,454	($817)
	November 30, 2015	**November 30, 2014**		
Cash	$23,840	$1,841		
Working Capital	$26,594	$1,594		

(1) Throughout this document, "Adjusted EBITDA" and "Adjusted EBITDA before new facility start-up costs' are used as profitability measures. Please refer to the "Non-IFRS Measures" section of this MD&A for further discussion on these measures.

The words "we", "our", "us", "Company", and "Convalo" refer to Convalo Health International Corp and/or the management and employees of the Company.

ABOUT OUR BUSINESS

Convalo Business Summary

Convalo is a public Canadian company focused on the United States detox and outpatient rehabilitation market and serves clients with addictive and co-occurring disorders. The Company's treatment philosophy, through its BLVD, brand emphasizes mindfulness, meditation, trauma work, giving back, creative self-expression and community, all to achieve a deeply soulful and sustainable recovery. In conjunction with the 12-Step approach, the Company also offers additional insurance-reimbursed services catered to a variety of communities: gender specific, creatively-oriented, meditation/mindfulness and LGBT affirmative. The Company offers access to a wide range of services helpful to the recovery process of clients.

Convalo's business operations are dedicated to the treatment of insurance-reimbursed and private pay clients in the United States, who suffer from alcohol abuse, drug abuse, process addiction and other addictions. The employees of the Company work with each individual client to develop a schedule that promotes their recovery, which may include group therapy, case management, individual therapy, wellness and life skills mentoring, 12-Step integration, staff support, random drug and alcohol screenings, and five-star amenities.

The Company offers programs designed as either:

(a) the first or second phase in a long-term comprehensive program; or
(b) community fellowship and extra-support for individuals in need.

The Company's treatment facilities are located in Los Angeles, California and Orange County, California.

Amalgamation and private placement

On February 11, 2015 Convalo and Valiant Minerals Ltd. ("Valiant"), a corporation incorporated under the BCBCA and listed on the NEX trading board of the TSX Venture Exchange (the "Exchange"), completed a triangular amalgamation (the "Amalgamation"), whereby Valiant amalgamated with a wholly owned subsidiary of Convalo, 0986282 B.C. Ltd. (the "Amalgamation Entity"), to form an amalgamated corporation (named Convalo Health Corp.). As a result of the Amalgamation all of the property and assets of Valiant and the Amalgamation Entity became the property and assets of Convalo Health Corp., and all of the liabilities and obligations of Valiant and the Amalgamation Entity became liabilities of Convalo Health Corp. Following the Amalgamation Convalo obtained the listing status of Valiant and Valiant ceased to be a reporting issuer on the Exchange. Convalo trades under the trading symbol "CXV".

The Amalgamation provided for the issuance of 5,900,000 Convalo shares to the Valiant shareholders being one Convalo share issued in exchange for every two Valiant shares issued and outstanding. Convalo Health Corp. issued to Convalo one fully paid issued and outstanding share in the capital of the Convalo Health Corp. in exchange for each one Convalo Sub share held and subsequently Convalo Health Corp. became a wholly owned subsidiary of Convalo.

In conjunction with the Amalgamation, Valiant completed a non-brokered private placement of 58,140,000 subscription receipts for gross proceeds of $2,907,000. Each subscription receipt entitled the holder, prior to the Amalgamation, to acquire one share in the capital of Valiant and one warrant. These subscription receipts were automatically exchanged for 29,070,000 Convalo shares and warrants exercisable for 29,070,000 Convalo shares. Broker warrants issued in connection with the private placement were automatically exchanged for warrants exercisable for 1,989,400 Convalo shares.

Key Performance Drivers

Our outpatient service revenue line is based on enrollment of clients that suffer from addiction requiring them to get outpatient care for recovery.

The Company's treatment facilities are responsible for supporting the clients that enroll in recovery programs. Operational efficiency of these facilities is a key to achieving industry-leading client success rates, and maintaining insurance reimbursement. BLVD is committed to compliance with all applicable regulations, the delivery of quality service, and ensuring the highest level of care for our clients.

The growing market of outpatient services provides significant opportunity to garner market share and the Company's operational efficiency and marketing strategy, are key to driving more client business to BLVD, thus increasing revenues and gross profits.

Future Outlook

Organic Growth: A top priority continues to be organic growth, the generation of net profit, positive cash flow, and positive EBITDA. Our niche approach supplements the 12-step program and our other client focused initiatives provide high-touch client care. As we continue to expand services in our existing markets, we will leverage our core competencies and existing business platform to enter into new markets.

Going forward, we seek to find ways to continue to grow our client base and penetrate the market to streamline our operational platform and generate positive cash flow and operational profits. We will continue to improve on operational efficiencies and management as they are key execution points in order to achieve healthy gross margins while growing revenues via the cross selling of services to existing and new clients.

Expansion through acquisitions of new markets: The Company is focused is on several types of opportunities to grow and expand service lines with large client bases that have the ability to expand enrollment of clients who fit our existing lines of business. As we continue to grow and achieve scale, the anticipated increase in cash generated from operations can be used to market our service and to gain additional market share. We will continue to pursue acquisitions of other types of clinics to expand our operations.

OPERATING RESULTS

Accounting Policies and Estimates

The consolidated financial statements for the three and twelve months ended November 30, 2015 and November 30, 2014 are reported under International Financial Reporting Standards ("IFRS") issued by the governing body of the International Accounting Standards Board ("IASB"). The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of consolidated financial statements.

Non-IFRS Measures

Throughout this MD&A, references are made to a number of measures which are believed to be meaningful in the assessment of the Company's performance. All of these metrics are non-standard measures under IFRS, and may not be identical to similarly titled measures reported by other companies. Also, in the future, we may disclose different non-IFRS financial measures in order to help our investors more meaningfully evaluate and compare our future results of operations to our previously reported results of operations. Readers are cautioned that the disclosure of these items is meant to add to, and not replace, the discussion of financial results as determined in accordance with IFRS. The primary purpose of these non-IFRS measures is to provide supplemental information that may prove useful to investors who wish to consider the impact of certain non-cash or uncontrollable items on the Company's operating performance and who wish to separate revenues and related costs associated with client acquisition that may not be ongoing.

EBITDA and Adjusted EBITDA

In calculating EBITDA and Adjusted EBITDA certain items are excluded from net loss including interest, taxes, amortization and non-cash share-based payments. Set forth below are descriptions of the financial items that have been excluded from net loss to calculate EBITDA and Adjusted EBITDA and the material limitations associated with using this non-IFRS financial measure as compared to net loss.

- Depreciation and amortization expense may be useful for investors to consider because they generally represent the wear and tear on our property and equipment used in our operations. However, we do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating costs.

- The amount of interest expense we incur or interest income we generate may be useful for investors to consider and may result in current cash inflows or outflows. However, we do not consider the amount of interest expense or interest income to be a representative component of the day-to-day operating performance of our business.

- Income tax expense may be useful for investors to consider because it generally represents the taxes which may be payable for the period and the change in deferred income taxes and may reduce the amount of funds otherwise available for use. However, we do not consider the amount of income tax expense to be a representative component of the day-to-day operating performance of our business.

- Stock based compensation may be useful for investors to consider because it is an estimate of the non-cash component of compensation received by the Company's directors, officers, employees, vendors and consultants for services rendered. However, stock-based compensation is being excluded from the Company's operating expenses because the decisions which gave rise to these expenses were not made to increase revenue in a particular period, but were made for the Company's long- term benefit over multiple periods. While strategic decisions, such as those to issue share-based payments are made to further the Company's long-term strategic objectives and do impact the Company's earnings under IFRS, these items affect multiple periods and management is not able to change or affect these items within any particular period.

(Expressed in Canadian dollars in thousands)

- Transaction cost may be useful for investors to consider as this is a non-cash, non-recurring expense associated with the Amalgamation transaction, which the Company executed in order to achieve listing status on the Exchange.

- Severance costs may be useful for investors to consider as these are costs associated with right-sizing acquired operations' personnel. These costs are not expected to be recurring.

Adjusted EBITDA Before New Facility Start-up Costs

New Facility Start-up Costs may be useful for investors to consider because they represent costs directly related to new facilities that have yet to be opened and accordingly are not generating revenues. New Facility Start-up Costs include pre-opening rent expense, non-capitalizable building and permitting costs and pre-opening training and compensation costs of employees hired to work at the new facilities. We view New Facility Start-up Costs as investments that enable expansion and growth but do not necessarily consider them a representative component of the day-to-day operating performance of our business.

Management uses both IFRS and non-IFRS measures when planning, monitoring, and evaluating the Company's performance.

The following table shows our Non-IFRS measures reconciled to our net loss for the indicated periods:

	Three Months Ended November 30, 2015	Three Months Ended November 30, 2014	Twelve Months Ended November 30, 2015	Twelve Months Ended November 30, 2014
Net Income (loss)	**$ 132**	**$ (693)**	**$ (499)**	**$ (1,882)**
Add back:				
Depreciation and amortization	96	2	149	5
Interest expense/(interest income)	37	-	20	-
Provision for income taxes	-	-	-	-
Stock based compensation	801	250	2,339	1,060
Transaction costs	-	-	350	-
Severance costs	95	-	95	-
Adjusted EBITDA	**$ 1,161**	**$ (441)**	**$ 2,454**	**$ (817)**
Add back:				
New facility start-up costs	95	-	572	-
Adjusted EBITDA before new facility start-up costs	**$ 1,256**	**$ (441)**	**$ 3,026**	**$ (817)**

(Expressed in Canadian dollars in thousands)

Condensed Consolidated Operating Results

Consolidated Statement of Operations and Deficit		Three Months Ended November 30, 2015		Three Months Ended November 30, 2014		Twelve Months Ended November 30, 2015		Twelve Months Ended November 30, 2014
Revenue	**$**	**8,072**	**$**	**345**	**$**	**17,266**	**$**	**781**
Expenses		7,941		1,039		17,764		2,663
Net income (loss)	**$**	**131**	**$**	**(693)**	**$**	**(498)**	**$**	**(1,882)**
Deficit, beginning of period		(2,574)		(1,249)		(1,943)		(61)
Deficit, end of period	**$**	**(2,441)**	**$**	**(1,943)**	**$**	**(2,441)**	**$**	**(1,943)**
Net income (loss)	**$**	**131**	**$**	**(693)**	**$**	**(498)**	**$**	**(1,882)**
Cumulative translation adjustment		414		145		2,710		123
Comprehensive income/ (loss)	**$**	**545**	**$**	**548**	**$**	**2,212**	**$**	**(1,759)**
Basic and diluted loss per share		0.001	$	(0.014)	$	(0.003)	$	(0.038)

Revenues

For the three months ended November 30, 2015 and 2014, revenues totaled $8,072 and $345, respectively. For the nine months ended November 30, 2015 and 2014, revenues totaled $17,266 and $781, respectively. The increase in revenues in both the three and six month periods reflects higher client occupancy at the Company's BLVD treatment center in Hollywood, CA that opened in May, 2014, the acquisitions of Harmony Hollywood LLC and Accredited Rehab Treatments Centers LLC effective June 30, 2015 and revenue associated with a new IOP facility opened in West Los Angeles in September, 2015. Revenue associated with the above-mentioned acquisitions was $3,785 and $6,500 in the three and twelve month periods ending November 30, 2015, respectively. In addition, favorable US dollar exchange rates benefited revenue by approximately $1,235 and $2,237 in the three and twelve months ended November 30, 2015, respectively.

Cost of revenues and gross margin

Cost of revenues is comprised primarily of wages paid to clinical directors, clinicians, and group facilitators, along with program supplies, testing supplies and other expenses directly related to treating and housing clients.

For the three months ended November 30, 2015 and 2014, cost of revenues were $3,663 and $171, respectively, and gross margin was 54.6% and 50.5%, respectively. For the twelve months ended November 30, 2015 and 2014, cost of revenues were $6,409 and $334, respectively and gross margin was 62.9% and 57.2%, respectively. The increase in cost of sales in both the three and twelve month periods is directly related to an increase in revenues, as well as severance costs of $95 paid in the quarter ended November 30, 2015, related to consolidating the Company's two IOP facilities and right-sizing the acquired companies' employee count. The increase in gross margin percentage in the three months and twelve months ended November 30, 2015 and 2104 is due to higher capacity utilization at the Company's outpatient facilities. Higher US dollar exchange rates increased cost of sales by $561 and $830 in the three and twelve months ended November 30, 2015, respectively.

Facilities

Facilities expense includes all expenses related to renting and maintaining our physical corporate and operating locations, but excludes facility costs related to new operating facilities which have yet to be opened.

For the three months ended November 30, 2015 and 2014, facilities expense totaled $604 and $131, respectively. For the twelve months ended November 30, 2015 and 2014, facilities expense was $1,546 and $332, respectively. The increase in facilities expense is due primarily to the acquisitions of Harmony Hollywood LLC and Accredited Rehab Treatments Centers LLC, and the opening of a new West Los Angeles facility. Higher US dollar exchange rates increased facilities expense by $92 and $200 in the three and twelve months ended November 30, 2015, respectively.

Sales and marketing

Sales and marketing costs are comprised primarily of salaries, commissions and related expenses for sales personal and other expenses incurred to acquire new clients and get them enrolled in our service, salaries and related expenses for marketing personal, and costs related to advertising.

For the three months ended November 30, 2015 and 2014, sales and marketing expenses totaled $1,498 and $242, respectively. For the twelve months ended November 30, 2015 and 2014, sales and marketing expenses were $3,158 and $543, respectively. The increase in sales and marketing expenses in both the three and twelve months is due to higher sales commissions associated with the increase in revenues, higher sales and internet marketing headcount and increased marketing activity. Higher US dollar exchange rates increased Sales and marketing costs by $229 and $409 in the three and twelve months ended November 30, 2015, respectively.

General and Administrative

General and administrative expenses are comprised primarily of salaries and related expenses for finance, IT, accounting, management, and human resource personnel, along with bad debt expenses, professional and legal services and other general overhead, including costs associated with being public.

For the three months ended November 30, 2015 and 2014, general and administrative expenses totaled $1,813 and $242 respectively. For the twelve months ended November 30, 2015 and 2014, general and administrative expenses were $4,237 and $389, respectively. The increase in both the three and twelve months is as a result of building out the Company's corporate infrastructure, including staffing and a corporate office, as well as higher billing and consulting services and costs related to going public in February, 2015. Higher US dollar exchange rates increased general and administrative expenses by $277 and $549 in the three and twelve months ended November 30, 2015, respectively.

New facility start-up costs

New Facility Start-up Costs include pre-opening rent expense, non-capitalizable building and permitting costs and pre-opening training and compensation costs of employees hired to work at the new operating facilities.

For the three months ended November 30, 2015 and 2014 new facility start-up costs totaled $96 and $nil, respectively. For the twelve months ended November 30, 2015 and 2014, new facility start-up costs were $573 and $nil, respectively. The increase in costs in both the three and twelve months relates to pre-opening costs on a new outpatient center that was opened on the West-Side of Los Angeles in the September, 2015.

Stock based compensation

Stock based compensation represents the amortization of the fair value of options and warrants issued to the Company's directors, officers, employees, vendors and consultants for services rendered. For the three months ended November 30, 2015 and 2014 stock based compensation costs totaled $801 and $250, respectively. For the twelve months ended November 30, 2015 and 2014, stock based compensation costs were $2,339 and $1,060, respectively. The increase in stock based compensation costs is as a result of options issued after the Company's listing transaction in February, 2015 as described above.

Transaction costs

For both the three months ended November 30, 2015 and 2014 transaction costs were $nil. For the twelve months ended November 30, 2015 and 2014 transaction costs were $349,827 and $nil, respectively. Transaction costs arose as a result of the Amalgamation in February, 2015. As a result of the Amalgamation, the Company issued 5,900,000 shares of common stock valued at $590,000 and in return the Company obtained $304,270 of cash from Valiant and assumed $31,658 of payables. The difference between the fair value of the shares issued and the net assets acquired of $317,388 was attributed to the cost of obtaining Valiant's listing status. In the three months ended August 31, 2015 the Company incurred an additional $32,589, bringing total excess attributed to transactions cost to $349,827 for the twelve months ended November 30, 2015.

Net Income/Loss

For the three months ended November 30, 2015 and 2014, the Company incurred net income of $131 and net loss of $693, respectively. For the twelve months ended November 30, 2015 and 2014, the Company incurred a net loss of $498 and $1,882, respectively.

Comprehensive Income/Loss

For the three months ended November 30, 2015 and 2014, the Company incurred comprehensive income of $545 and a comprehensive loss of $549, respectively. For the twelve months ended November 30, 2015 and 2014, the Company incurred comprehensive income of $2,212 and comprehensive loss of $1,759, respectively.

The difference between net loss and comprehensive loss for the respective periods relates to foreign currency translation adjustments which record exchange differences arising on translation of the assets and liabilities of foreign controlled subsidiaries and loans between the members of the group. The comprehensive gains in the three and twelve months ended November 30, 2015, are a result of the strengthening of the U.S. dollar versus the Canadian dollar over the perspective period.

(Expressed in Canadian dollars in thousands)

Summary of Quarterly Results

The Company's revenues, net income/loss and net income/loss per share for each of the eight most recently completed quarters is as follows:

	Three Months Ended February 28, 2014	Three Months Ended May 31, 2014	Three Months Ended August 31, 2014	Three Months Ended November 30, 2014	Three Months Ended February 28, 2015	Three Months Ended May 31, 2015	Three Months Ended August 31, 2015	Three Months Ended November 30, 2015
Revenue	**$ -**	**$ 88**	**$ 348**	**$ 345**	**$ 1,201**	**$ 2,319**	**$ 5,674**	**$ 8,072**
Expenses	**-**	**319**	**1,305**	**1,039**	**1,365**	**2,316**	**6,145**	**7,941**
Net income (loss)	**$ (28)**	**$ (230)**	**$ (957)**	**$ (693)**	**$ (163)**	**$ 3**	**$ (471)**	**$ 131**
Net income (loss) per share	**(0.001)**	**(0.005)**	**(0.002)**	**(0.014)**	**(0.002)**	**(0.000)**	**(0.002)**	**0.001**

The Company's increase in quarterly revenues shown above is a result of the rapid expansion in operations, starting with a single outpatient location in May of 2014. Initially the facility operated at very low occupancy levels; occupancy improved significantly from quarter to quarter beginning in March of 2015, driven by investments in sales and marketing. The acquisitions of Harmony Hollywood, LLC and Accredited Rehab Treatments Services, LLC, in July 2015, drove a large increase in revenues in the quarters ended August 31, 2015 (which benefitted from two months of additional revenues from these new businesses) and November 30, 2015 (which benefitted from a full quarter of additional revenues). The quarter ended November 30, 2015 further benefitted from the opening of an additional outpatient facility in September, 2015. Although not apparent from the above due to the Company's short operating history and rapid growth, the Company does expect to experience a seasonal decline in revenues in the quarter ended February 28th each year. This decline is driven by lower expected client attendance in the month of December, as well as insurance policy renewals on January 1st of each year. Policy renewals result in a resetting of client deductibles, causing a larger proportion of billed serves to fall on individual clients versus commercial payors. Since the Company recognizes client self-pay upon collection (due to the difficulty in estimating actual client self-pay collection rates), revenues in January and February are typically lower than other months. The actual impact of policies resetting depends on the mix of client insurance policies and the amount the Company is able to collect from clients up front.

Expenses show little seasonality, other than commissions and third-party billing expenses, which are both driven by revenues.

(Expressed in Canadian dollars in thousands)

Consolidated Statement of Financial Position

	November 30, 2015		November 30, 2014	
Cash	$	**23,840**	$	1,841
Accounts receivable		**5,134**		326
Prepaid expenses		**678**		9
Other current assets		**207**		167
Property and equipment		**1,336**		53
Unallocated purchase price		**13,328**		-
Restricted cash		**-**		277
Deposits and other non-current assets		**681**		402
Total assets	$	**45,204**	$	3,075
Accounts payable and other current liabilities		**3,251**		749
Non-current liabilities		**14**		-
Total liabilities	$	**3,265**	$	749
Share capital and contributed surplus		**41,559**		4,158
Deficit		**(2,441)**		(1,943)
Accumulated other comprehensive gain		**2,821**		111
Shareholders' equity	$	**41,939**	$	2,326

Liquidity

As at November 30, 2015, the Company had cash on hand of $23,840. Management considers liquid assets to consist of cash and cash equivalents, accounts receivable, inventory, prepaid expenses and other current assets. According to this definition, the company's liquid assets equal the current assets totaling $29,859. While working capital is traditionally used as a measure of a company's liquidity, management believes that a more accurate view of the Company's liquidity is liquid assets less current liabilities. The Company's liquid assets less current liabilities equal $26,594.

Capital Management

The Company considers its capital gain/loss to be shareholders' equity, which is comprised of share capital, contributed surplus, deficit and accumulated other comprehensive income and deficit, which totaled $41,939 at November 30, 2015.

The Company plans to raise capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements and convertible notes. There can be no assurance that the Company will be able to continue raising capital in this manner.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash and short-term guarantee deposits, held with major Canadian and US financial institutions.

Financing

The Company has financed its operations primarily from equity financings. During the quarter ended February 28, 2015, the Company issued 5,900,000 shares to Valiant shareholders in connection with the Amalgamation transaction described above. The Amalgamation has been accounted for as a purchase of the assets and liabilities of Valiant and not a business combination. As a result the Company acquired $304,270 in cash that Valiant had on hand.

In conjunction with the Amalgamation, Valiant completed a non-brokered private placement of 58,140,000 subscription receipts at a price of $0.05 per subscription receipt for aggregate gross proceeds of $2,907,000. Each subscription receipt issued in connection with the private placement entitled the holder, just prior to the Amalgamation, to acquire one common share in the capital of Valiant and (i) one-half of one transferable share purchase warrant (a "Valiant A Warrant"), with each whole Valiant A Warrant entitling the holder to acquire one Valiant Share at a price of $0.10 per share until the date that is the earlier of (a) thirty (30) months from the date of issuance, and (b) ninety (90) days following the Amalgamation, and (ii) one-half of one transferable share purchase warrant (a "Valiant B Warrant"), with each whole Valiant B Warrant entitling the holder thereof to acquire one Valiant Share at a price of $0.10 per share until the date that is the earlier of (a) thirty (30) months from the date of issuance, and (b) twelve (12) months following the Amalgamation. In connection with the private placement 3,978,800 broker warrants were issued at an exercise price of $0.05 per Valiant share exercisable for a period of 24 months. Pursuant to the Amalgamation each Valiant share, A Warrant and B Warrant issued pursuant to a subscription receipt, and each broker warrant issued pursuant to the private placement was exchanged for similar securities of Convalo on a one for two basis, and with the exercise price of the warrants increased by 100%. As a result, immediately following the Amalgamation, Convalo issued 29,070,000 shares at $0.10 per share, 29,070,000 warrants exercisable at $0.10 per share and 1,989,400 broker warrants exercisable at $0.10 per share. The warrants issued were valued at $318,760 and the broker warrants were valued at $104,490. Costs directly attributable to the private placement amounted to $198,890, for total net proceeds from the private placement of $2,708,110.

(Expressed in Canadian dollars in thousands)

On April 22, 2015 (the "Closing), the Company closed on a bought deal private placement of 43,125,000 units. Each Unit consists of one common share in the capital of Convalo issued at $0.40 per common share, and one warrant of Convalo. Each Warrant entitles the holder thereof to acquire one common share for an exercise price of $0.50 per common share for a period of 36 months following the closing of the offering. The expiry date of the Warrants may be accelerated by Convalo at any time following the six-month anniversary of the Closing and prior to the expiry date of the Warrants if the volume-weighted average trading price of the Company's common shares is greater than $0.60 for any 20 consecutive trading days. The Company received gross proceeds of $17,250,000 and incurred cash share issuance costs of $1,466,797 for total net proceeds of $15,783,203. In addition, the Company issued 2,156,250 broker warrants to the underwriters.

On November 17, 2015, the company accelerated the expiry date of the bought deal private placement warrants outstanding, pursuant to the terms of the warrant certificates. The acceleration was a result of the Company's share price achieving a volume-weighted average trading price greater than $0.60 for 20 consecutive trading days around the time of closing of the Harmony Hollywood, LLC and Accredited Rehab and Treatment Services, LLC acquisition which was announced on May 20th, 2015.

During the twelve months ended November 30, 2015, a total of 47,611,050 warrants and 3,335,478 broker warrants were exercised at a weighted average exercise price of $0.19 per share for total proceeds of $9,775

Share Capital

	November 30, 2015	*November 30, 2014*
Authorized		
Unlimited voting common shares without par value		
Issued		
199,521,353 voting common shares (2014 – 71,089,550)	**33,840,124**	4,113,517

Changes to share capital:

	Number of shares	***Amount***
Balance at November 30, 2013	**37,534,300**	**1,024**
Shares issued through private placement, net of costs (i)	3,100,250	279
Shares issued to third parties in exchange for services (ii)	12,600,000	1,260
Subscription receipts for shares in escrow, net of costs (iii)	17,855,000	1,551
Balance at November 30, 2014	**71,089,550**	**4,114**
Shares issued to Valiant shareholders (Amalgamation) (iv)	5,900,000	590
Shares issued through Valiant private placement, net of costs (v)	29,070,000	2,285
Shares issued through bought deal private placement (vi)	43,125,000	10,970
Exercise of Options	2,000,000	205
Exercise of warrants (vii)	51,756,928	9,775
Shares issued for Purchase of Harmony Hollywood and ARTS (viii)	12,000,000	6,000
As at November 30, 2015	**214,941,478**	**33,939**

As of the date of this report, 215,401,478 shares are outstanding.

(Expressed in Canadian dollars in thousands)

Commitments

Operating Leases

The Company leases certain facilities under the terms of non-cancelable operating leases. For the three and twelve month periods ended November 30, 2015, amounts included in facilities expense totaled $343 and 793, respectively. Future payments in US dollars pursuant to these commitments are as follows:

At November 30, 2015		US $
Less than 1 year	$	1,383
Between 1 and 5 years		1,626
Total	$	3,009

Other Commitments

Related Party Transactions

On October 1, 2013, the Company entered into an agreement with Canons Park Advisors, Inc. ("Advisor"), an entity that is wholly owned by two directors of the Company[1], in which the Advisor will act as a financial and management advisor to the Company. Pursuant to the terms of the agreement, the Advisor is entitled to a variety of payments based on certain milestones. For the three and twelve months ended November 30, 2015 and 2014, the Company incurred expenses of $579, $1,767, respectively (2014: $134 and $477, respectively). These amounts are included in the disclosure of compensation of key management personnel.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including executive directors. The total compensation of key management personnel is as follows:

	Three Months Ended November 30, 2015	Three Months Ended November 30, 2014	Twelve Months Ended November 30, 2015	Twelve Months Ended November 30, 2014
Salaries and short term benefits	29	134	47	302
Stock based compensation	550	0	1,720	175
	579	134	1,767	477

[1] Canons Park Advisors, Inc. is wholly owned by Michael Dalsin and Roger Greene.

Off Balance Sheet Arrangements

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on its results of operations or financial condition.

Subsequent Events

There were no significant subsequent events after November 30, 2015 through the date of filing.

ACCOUNTING AND DISCLOSURE MATTERS

Financial Reporting Controls

The Company is not required to certify the design and evaluation of its disclosure controls and procedures and internal controls over financial reporting and has not completed such an evaluation.

(Expressed in Canadian dollars in thousands)

There were no substantive changes in the Company's disclosure controls and procedures and internal controls over financial reporting during the period ended November 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal controls over financial reporting.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the consolidated financial statements. We constantly evaluate these estimates and assumptions.

We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty, thus the amounts currently reported in the consolidated financial statements could prove to be inaccurate in the future.

We consider the estimates and assumptions described in this section to be an important part in understanding the consolidated financial statements. These estimates and assumptions are subject to change, as they rely heavily on management's judgment and are based on factors that are inherently uncertain.

Revenue Recognition

We provide services to our clients in both inpatient and outpatient treatment settings. We receive the vast majority of payments from commercial payors at out-of-network rates. Client service revenues billed to commercial payors are recognized once insurance coverage has been verified and when services are performed. Client service revenues are recorded at net realizable value. Net realizable value is determined using established billing rates less adjustments to estimate the amount expected to be collected for the service provided based on historic collections rates for out-of-network services not under contract.

The client self-pay portion is either collected upon admission, paid out-of-pocket as services are provided or billed and collected once the client steps down to an outpatient level of care. From time to time we may provide scholarships to a limited number of clients. We recognize client self-pay upon collection. We do not recognize revenues for scholarships provided.

Estimates of net realizable value are subject to significant judgment and approximation by management. It is possible that actual results could differ from the historical estimates management has used to help determine the net realizable value of revenues. If our actual collections either exceed or are less than the net realizable value estimates, we will record a revenue adjustment, either positive or negative, for the difference between our estimate of the receivable and the amount actually collected in the reporting period in which the collection occurred.

Accounts Receivable

Accounts receivable are recorded at the time revenue is recognized, net of contractual allowances and are presented on the balance sheet net of allowance for doubtful accounts. The Company performs analyses to evaluate the net realizable value of accounts receivable as of the balance sheet date. Specifically, the Company considers historical realization data, accounts receivable aging trends, other operating trends and relevant business conditions. Because of continuing changes in the health care industry and third party reimbursement, it is possible that our estimates could change, which could have a material impact on our operations and cash flows.

Stock-Based Compensation

The Company accounts for stock-based compensation, including stock options and warrants, using the fair value method as prescribed by IFRS 2. Under this method, the fair value of stock options and warrants at the date of grant is amortized to stock compensation expense over the vesting period and the offsetting credit is recorded as an increase in contributed surplus. The Company accounts for forfeitures as they happen.

For the three and twelve month periods ended November 30, 2015, the Company recorded stock-based compensation expense of $801 and $2,339 (2014 - $250 and $1,060, respectively).

For the three months ended November 30, 2015, the fair value of the stock options was determined using the Black-Scholes option pricing model with the following assumptions:

Expected option life	5 years
Expected volatility	100%
Risk-free interest rate	0.99%
Dividend yield	Nil
Weighted average share price at grant date	$0.27
Weighted average exercise price	$0.27

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instrument risk exposure

The Company's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. These risks arise from the normal course of operations and all transactions are undertaken to support the Company's ability to continue as a going concern. The Company's financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company's consolidated balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall business strategy, diversifying risk, pricing appropriately for risk, mitigation through preventative controls, and transferring risk to third parties.

<u>Market risk</u>

Foreign Currency Risk

A significant portion of the Company's revenues are transacted in U.S. dollars and as a result, fluctuations in the rate of exchange between the U.S. dollar and Canadian dollar can have a significant impact on the Company's cash flows and reported results. As a majority of the Company's operating expenses are also in United States dollars, operational foreign currency risk is limited.

Included in the condensed consolidated statement of financial position at November 30, 2015, are the following assets and liabilities denominated in U.S. dollars: cash of USD $17,836, accounts receivable of USD $3,841 and accounts payable and accrued liabilities of USD $2,445. At November 30, 2014, the Company had cash of USD $1,604.

The Company's revenues and expenses denominated in U.S. dollars for the twelve month period ended November 30, 2015 were USD $13,357 and USD $12,304, respectively. Accordingly, a 10 percent increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in an $105 increase or decrease in net income.

The functional currency for all of the Company's foreign operations is the US dollar which is the local currency. The Company translates the assets and liabilities of its US dollar functional currency subsidiaries into Canadian dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using average exchange rates that approximate those in effect during the period. The Company is affected by the fluctuations in the value of the US dollar. Significant fluctuations of exchange rates could adversely affect the Company's financial condition and results of operations. At the present, the Company maintains cash balances in both US and Canadian dollars, but does not purchase any securities or financial instruments to speculate on or hedge against a rise or fall in the value of the US Dollar.

<u>Credit Risk</u>

Credit risk is the potential that clients or a counterparty to a financial instrument fail to meet their obligation to the Company. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable as the Company's revenues are concentrated in California. The Company had many customers during the period and believes that there is minimal risk associated with collection of these amounts. The Company manages its credit risk by evaluating the eligibility of its clients for insurance or other coverage prior to admittance.

All of the Company's accounts receivable are neither past due nor impaired as it awaits formal recognition from insurers as a pre-approved service. Credit risk is generally limited to the risk that the estimated amount of revenue that can be collected is not accurate.

Provision for doubtful accounts recorded during both the three and twelve months ended November 30, 2015 was $243.
For the three and twelve months ended November 30, 2014 the provision for doubtful accounts was $nil.

<u>Liquidity Risk</u>

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company manages its liquidity risk through cash management. In managing liquidity risk, the Company maintains access to equity markets, the availability of which is dependent on market conditions. The Company monitors its requirements through the use of rolling future net cash flow projections and budgets and believes it has sufficient funding through its current cash position to continue operating for the foreseeable future. All future liabilities are current and due within the next twelve months.

RISK FACTORS

***Due to the nature of* Convalo's *business, the legal and economic climate in which* Convalo *operates and the present stage of development of its business,* Convalo *may be subject to significant risks.* Convalo*'s future development and actual operating results may be very different from those expected as at the date of this* MD&A. *There can be no certainty that* Convalo *will be able to implement successfully the strategy set out herein. No representation is or can be made as to the future performance of* Convalo *and there can be no assurance that* Convalo *will achieve its objectives. In addition to the other information in this* MD&A*, an investor should carefully consider each of, and the cumulative effect of, the following* factors.**

An investment in Convalo's shares should be considered highly speculative due to the nature of Convalo's business and the present stage of its development. In evaluating Convalo and its business, shareholders should carefully consider the following risk factors. These risk factors are not a definitive list of all risk factors associated with Convalo or in connection with their operations. It is believed that these are the factors that could cause actual results to be different from expected and historical results. You should not rely upon forward-looking statements as a prediction of future results. Additional risks and uncertainties that Convalo is unaware of, or that Convalo currently deems to be immaterial, may also become important factors that affect Convalo. If any of the risks actually occur, the business, financial condition or results of operations could be materially adversely affected, with the result that the trading price of Convalo or Convalo's shares, as applicable, could decline and the shareholder could lose all or part of his or her investment.

Ability to Manage Growth

Recent rapid growth in all areas of Convalo's business has placed, and is expected to continue to place, a significant strain on its managerial, operational and technical resources. Convalo expects operating expenses and staffing levels to increase in the future. To manage such growth, Convalo must expand its operational and technical capabilities and manage its employee base while effectively administering multiple relationships with various third parties. There can be no assurance that Convalo will be able to manage its expanding operations effectively. Any failure to implement cohesive management and operating systems, to add resources on a cost-effective basis or to properly manage Convalo's expansion could have a material adverse effect on its business and results of operations.

Capital Investment

The timing and amount of capital expenditures by Convalo will be dependent upon Convalo'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 Convalo 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 Convalo and its subsidiaries and their respective cash flows.

Competition

Convalo will participate in a highly competitive market, which may become more competitive as new players enter. Certain competitors will be subsidiaries or divisions of larger, much better capitalized companies. Certain competitors will have vertically integrated services sectors of the market. Convalo will have less capital and may encounter greater operational challenges in serving the market.

Dependence upon Management

Although Convalo is expected to have experienced senior management and personnel, Convalo will be substantially dependent upon the services of a few key personnel, particularly Michael Dalsin and Roger Greene, for the successful operation of its business. The loss of the services of any of these personnel could have a material adverse effect on the business of Convalo. Convalo may not be able to attract and retain personnel on acceptable terms given the intense competition for such personnel among competitors. If it loses any of these persons, or is unable to attract and retain qualified personnel, its business, financial condition and results of operations may be materially and adversely affected.

Inability to Implement the Business Strategy

The growth and expansion of Convalo's business is heavily dependent upon the successful implementation of Convalo's business strategy. There can be no assurance that Convalo will be successful in the implementation of its business strategy.

Issuance of Debt

From time to time, Convalo may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase Convalo's debt levels above industry standards. The level of Convalo's indebtedness from time to time could impair Convalo's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Conflicts of Interest

Certain of the directors of Convalo are also directors and officers of other companies, some of which may be in the healthcare sector, and conflicts of interest may arise between their duties as directors of Convalo and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the applicable corporate statute.

Dilution and Future Issuances of* Convalo *Shares

Convalo may issue additional shares in the future, which may dilute a shareholder's holdings in Convalo.

Future Sales of* Convalo *Shares by Directors and Officers

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

Reimbursement Rates May Decline

Reimbursement for services to be provided by Convalo will come primarily from Medicare, the *Patient Protection and Affordable Care Act* ("PPACA") and private health insurance companies. The reimbursement rates offered are outside the control of Convalo. Reimbursement rates in the United States, and much of the United States healthcare market in general, have been subject to continual reductions as health insurers and governmental entities attempt to control healthcare costs. The extent and timing of any reduction in reimbursement rates cannot be predicted by Convalo.

Reductions in reimbursement rates can have a material impact on the profitability of Convalo's operations. A reduction in reimbursement may be unrelated to any concurrent decline in the cost of operations, thereby resulting in reduced profitability. Convalo's costs of operations could increase, but the cost increases may not be passed on to customers because reimbursement rates are set without regard to the cost of service.

Requirement for Permits and Licenses in a Highly Regulated Business

Some operations of Convalo require certain licenses and permits from the authorities in the United States. The ability of Convalo to obtain, sustain or renew any such licenses and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies. There is no guarantee that Convalo will be able to obtain such licenses and permits.

Convalo will be subject to regulation from both United States federal and state authorities. Regulatory action could disrupt Convalo's ability to provide services. Such regulatory action could come in the form of actions based upon Convalo's operation. Regulatory action could prevent or delay reimbursement for certain services. There could also be legislative action that could adversely affect Convalo's business model, including a decision by the United States government, to become the exclusive provider of healthcare services at some time in the future. Conversely, budgetary problems in the United States could lead to reduced funding, substantial modification or elimination of Medicare programs, which would end reimbursement for many patients. There can be no assurance that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the business of Convalo. Amendments to current laws and regulations could have a substantial adverse impact on Convalo.

Privacy Legislation

The *Health Insurance Portability and Accountability Act of 1996* ("**HIPAA**") required the United States Department of Health and Human Services to adopt standards to protect the privacy and security of individually identifiable health-related information. The department released regulations containing privacy standards in December 2000 and published revisions to the final regulations in August 2002. The privacy regulations extensively regulate the use and disclosure of individually identifiable health related information. The regulations also provide patients with significant new rights related to the understanding and controlling how their health information is used or disclosed. The security regulations require healthcare providers to implement administrative, physical and technical practices to protect the security of identifiable health information that is maintained or transmitted electronically.

In addition to HIPAA, there are numerous federal and state laws and regulations addressing patient and consumer privacy concerns, including unauthorized access or theft of personal information. State statutes and regulations vary from state to state. Lawsuits, including class actions and action by state attorneys general, directed at companies that have experienced a privacy or security breach can also occur.

Convalo believes that the cost of compliance with HIPAA and other federal and state privacy laws will not have a material adverse effect on its business, financial condition, results of operations or cash flows. However, there can be no assurance that a breach of privacy or security will not occur. If there is a breach, Convalo may be subject to various penalties and damages and may be required to incur costs to mitigate the impact of the breach on affected individuals.

ICD-10 Coding System

Within the United States, health insurance plans and health care providers are required to transition to a new version of the standardized procedure coding system, ICD-10. This new version significantly expands the number and detail of billing codes used for third-party claims. Use of the ICD-10 system may be required beginning October 1, 2015. Transition to the new ICD-10 system requires significant investment in coding technology and software as well as the training of staff involved in the coding and billing process. In addition to these upfront costs of transition to ICD- 10, it is possible that Convalo could experience disruption or delays in payment due to technical or coding errors or other implementation issues involving Convalo's systems or the systems and implementation efforts of health insurance plans and their business partners.

Strategic Relationships with Third Parties

Convalo anticipates that it will continue to depend on the relationships with various third parties, including hospitals, long-term care facilities and physicians to grow its business. Identifying, negotiating and documenting relationships with third parties requires significant time and resources. Convalo's competitors may be effective in providing incentives to their parties to favour their solutions or may prevent Convalo from developing strategic relationships with these parties. In addition, these third parties may not perform as expected under any agreement with them and Convalo may have disagreements or disputes with these parties, which could negatively affect Convalo's brand and reputation. It is possible that these third parties may not be able to devote the resources that Convalo expects from the relationship. If Convalo is unsuccessful in establishing or maintaining its relationship with these third parties, Convalo's ability to compete in the marketplace or to grow its revenue could be impaired, and operating results would suffer. Even if Convalo is successful, these relationships may not result in improved operating results.

Referrals

The success of Convalo is primarily dependent upon physician referrals of patients for assessment and rehabilitation procedures. These referrals come through preferred provider and other service agreements established through competitive tendering processes. If Convalo's physician relationships were to decline in number, the business, financial condition and results of operations of Convalo could be adversely affected. Further there is a risk concerning changes in the United States Anti-Kickback Statute and Stark Law and/or similar state laws, rules and regulations.

Information Technology Systems

Convalo's business depends, in part, on the continued and uninterrupted performance of its information technology systems. Sustained system failures or interruptions could disrupt Convalo's ability to operate effectively, which in turn could adversely affect its business, results of operations and financial condition. Convalo'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 and the extensive mitigation strategies put in place by Convalo, unanticipated problems affecting the information technology systems could cause interruptions for which Convalo's insurance policies may not provide adequate compensation.

Insurance and Uninsured Risks

Convalo's business will be subject to a number of risks and hazards generally, including general liability. Such occurrences could result in damage to facilities, personal injury or death, damage to the properties of Convalo, or the properties of others, monetary losses and possible legal liability.

Although Convalo will maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all potential risks associated with its operations. Convalo may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Convalo might also become subject to liability which may not be insured against or which Convalo may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Convalo to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

General Litigation Risk

Disputes are common in the United States healthcare industry and as such, in the normal course of business, Convalo might be involved in various legal actions and proceedings which arise from time to time, some of which may be substantial. There is no assurance that Convalo's insurance arrangements will be sufficient to cover any particular claim or claims that may arise in the future. Furthermore, Convalo is subject to the risk of claims and legal actions for various commercial and contractual matters in respect of which insurance is not available.

Exchange Rate Fluctuations

Exchange rate fluctuations may affect the costs that Convalo incurs in its operations. The appreciation of non-United States dollar currencies against the United States dollar can increase the cost of operations in United States dollar terms.

Holding Corporation

Convalo is considered a holding corporation and a substantial portion of its assets is the capital stock of its subsidiaries. As a result, the holders of Convalo shares are subject to risks attributable to its subsidiaries. As a holding corporation, Convalo conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenue. Consequently,

Convalo's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to Convalo. The ability of the subsidiaries of Convalo to pay dividends and other distributions depend on their operating results and is subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in ten instruments governing their debt. In the event of bankruptcy, liquidation or reorganization of any of Convalo's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to Convalo.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

Convalo may face risks if there are deficiencies in its internal controls 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 Convalo. The board of directors, 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 Convalo's financial statements being inaccurate and in future adjustments or restatements of its financial statements, which could adversely affect the price of Convalo shares and Convalo's business, financial condition and results of operations.

Reliance on the Medicare Program

Convalo will receive payments from a small number of entities, with the Medicare program of the U.S. government being the primary entity making payments. If that entity were to slow payments of Convalo's receivables for any reason, Convalo would be adversely impacted.

Key Credentialed Employees
Convalo will rely on a number of key employees and licensed providers with specialized training in the delivery of Convalo's services. Convalo's operations will be adversely affected if any of the key employees cease their employment with Convalo or if Convalo is unable to recruit and retain qualified staff.

Ability to Implement Acquisition Strategy

Convalo may not be able to effectively implement its acquisition strategy. There is the possibility that Convalo will not be able to reduce costs, improve profits or roll out additional rehabilitation facilities fast enough to meet its objectives.

Uninsured and Underinsured Clients and Collection Risks

An increase in uninsured and underinsured clients or the deterioration in the collectability of the accounts of such clients could have a material adverse effect on Convalo's business, financial condition and results of operations. Collection of receivables from third-party payors and clients is critical to Convalo's operating performance. The primary collection risks are (i) the risk of overestimating Convalo's net revenues at the time of billing that may result in Convalo receiving less than the recorded receivable, (ii) the risk of non- payment as a result of commercial insurance companies denying claims, (iii) the risk that clients will fail to remit insurance payments to Convalo when the commercial insurance company pays out-of-network claims directly to the client, (iv) resource and capacity constraints that may prevent Convalo from handling the volume of billing and collection issues in a timely manner, (v) the risk that clients do not pay Convalo for their self-pay balance (including co-pays, deductibles and any portion of the claim not covered by insurance, and (vi) the risk of non-payment from uninsured clients. Significant changes in business office operations, payor mix or economic conditions, including changes resulting from implementation of the *Affordable Care Act*, could affect Convalo's collection of accounts receivable, cash flows and results of operations.

Increased State and Federal Investigation of Healthcare Providers

Both federal and state government agencies have heightened and coordinated their civil and criminal enforcement efforts as part of numerous ongoing investigations of healthcare companies and various segments of the healthcare industry. These investigations relate to a wide variety of topics, including relationships with physicians, billing practices and use of controlled substances. The PPACA included an additional $350 million of federal funding over 10 years to fight healthcare fraud, waste and abuse, including $40 million for federal fiscal year 2014. From time to time, the Office of Inspector General and the Department of Justice have established national enforcement initiatives that focus on specific billing practices or other suspected areas of abuse. In addition, increased government enforcement activities, even if not directed towards our treatment facilities, also increase the risk that Convalo's facilities, physicians and other clinicians furnishing services in Convalo's facilities, or Convalo's executives and directors, could become named as defendants in private litigation such as state or federal false claims act cases or consumer protection cases, or could become the subject of complaints at the various state and federal agencies that have jurisdiction over Convalo's operations. Any governmental investigations involving any of Convalo's facilities, executives or directors, even if Convalo ultimately prevails, could result in significant expense and could adversely affect Convalo's reputation.

Uncertainties Regarding the PPACA

The PPACA provides for increased access to coverage for healthcare and seeks to reduce healthcare-related expenses. Overall, the expansion of health insurance coverage under the PPACA, most of which went into effect on January 1, 2014, is expected to be beneficial to the substance abuse treatment industry. Beginning January 1, 2014, health insurers are prohibited from denying coverage to individuals because of preexisting conditions. Further, all new small group and individual market health plans are required to cover ten essential health benefit categories, which include substance abuse addiction and mental health disorder services. Likewise, as of January 1, 2014, small group and individual market plans are required to comply with the requirements of the MHPAEA of 2008. According to the U.S. Department of Health and Human Services estimates published in February 2013, these changes are expected to expand coverage for substance abuse addiction treatment and mental health disorders treatment for another 62.5 million Americans. The expansion of commercial insurance for substance abuse treatment services under the PPACA may result in a higher demand for services from all providers. This may bring new competitors to the market, some of which may be better capitalized and have greater market penetration than Convalo. Further, Convalo expects increased demand for substance abuse treatment services to also increase the demand for case managers, therapists, medical technicians and others with clinical expertise in substance abuse treatment, which may make it both more difficult to adequately staff Convalo's substance abuse treatment facilities and could significantly increase its costs in delivering treatment, which may adversely affect both its operations and profitability. One of the many impacts of the PPACA has been a dramatic increase in payment reform efforts by federal and state government payors as well as commercial payors. These efforts take many forms including the growth of accountable care organizations, pay-for-performance bonus arrangements, partial capitation arrangements and the bundling of services into a single payment. The end result of these efforts is that more risk of the overall cost of care is being transferred to providers. As institutional providers and their affiliated physicians assume more risk for the cost of care, Convalo expects more services to be furnished within provider networks formed to accept these types of payment reform.

Convalo's ability to compete and retain traditional sources of clients may be adversely affected by Convalo's exclusion from such networks or its inability to be included in such networks. Convalo cannot predict the impact the implementation of the PPACA and related rulemaking and regulations may have on Convalo's business, results of operations, cash flow, capital resources and liquidity or whether Convalo will be able to adapt successfully to the changes required by the PPACA.

Changes to Federal, State and Local Regulations

Because Convalo's treatment programs and operations are regulated at federal, state and local levels, Convalo could be affected by different regulatory changes in different regional markets. Increases in the costs of regulatory compliance and the risks of noncompliance may increase Convalo's operating costs, and Convalo may not be able to recover these increased costs, which may adversely affect Convalo's results of operations and profitability. Also, because many of the current laws and regulations are relatively new, Convalo does not always have the benefit of significant regulatory or judicial interpretation of these laws and regulations. In the future, different interpretations or enforcement of these laws and regulations could subject Convalo's current or past practices to allegations of impropriety or illegality or could require Convalo to make changes to its treatment facilities, equipment, personnel, services or capital expenditure programs. A determination that Convalo has violated these laws, or the public announcement that Convalo is being investigated for possible violations of these laws, could adversely affect Convalo's business, operating results and overall reputation in the marketplace. In addition, federal, state and local regulations may be enacted that impose additional requirements on Convalo's facilities, such as the 2013 changes to the HIPAA privacy and security regulations. Adoption of legislation or the creation of new regulations affecting Convalo's facilities could increase its operating costs, restrain its growth, limit it from taking advantage of opportunities presented and could have a material adverse effect on its business, financial condition and results of operations. Adverse changes in existing comprehensive zoning plans or zoning regulations that impose additional restrictions on the use or requirements with respect to its facilities may affect Convalo's ability to operate its existing facilities or acquire new facilities, which may adversely affect its results of operations and profitability.