

First Quarter

2018

Management's Discussion and Analysis
For the Periods ended May 31, 2017 and 2016

BLVD Centers, Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three ended May 31, 2017 and May 31, 2016
(Expressed in Canadian dollars in thousands)

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of BLVD Centers, Corp. ("BLVD Centers" or the "Company"), prepared as of June 28, 2017, should be read in conjunction with the consolidated financial statements for the months ended May 31, 2017 and May 31, 2016, 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. The words "we", "our", "us", "Company", and "BLVD Centers" refer to BLVD Centers, Corp and/or the management and employees of the Company.

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.

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HIGHLIGHTS FOR THE THREE MONTHS ENDED May 31, 2017

- **Revenue Growth:** Revenues for the quarter ended May 31, 2017 were \$9,033,000, as compared to \$7,814,000 for the previously reported quarter ending November 30, 2016, an increase of 16%. This was the first quarter of revenue growth in a year, since May 31, 2016.
- **Improved Profitability:** Adjusted EBITDA (adjusted for share-based compensation) for the quarter was \$596,000, as compared to a loss of \$116,000 in the previously reported quarter, an absolute increase of 614%. This is the first reported quarter of positive Adjusted EBITDA since November 2015.
- Generated net profit on an enterprise level, including all non-cash costs such as stock-based compensation. The last quarter with net profit was more than a year prior for the quarter ending November 30, 2015.

SELECTED FINANCIAL INFORMATION

	<u>Q1 FY 17</u>	<u>Q3 FY 16</u>	<u>% Increase</u>
Revenue	\$9,033.00	\$7,814.00	16%
Adj EBITDA⁽¹⁾	\$596.00	\$(116.00)	614%
Net Income	\$51.00	\$(1,638.00)	103%

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

Summary of Quarterly Results

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

('000 CAD) Category	Three Months Ended August 31, 2015	Three Months Ended November 30, 2015	Three Months Ended February 29, 2016	Three Months Ended May 31, 2016	Three Months Ended August 31, 2016	Three Months Ended November 30, 2016	Three Months Ended February 28, 2017	Three Months Ended May 31, 2017
Revenue	\$5,674	\$8,072	\$6,422	\$7,288	\$7,434	\$7,814	\$7,122	\$9,033
Expenses	\$6,145	\$7,941	\$8,560	\$11,256	\$10,024	\$9,452	\$27,498	(\$8,982)
Net income (loss)	(\$471)	\$131	(\$2,138)	(\$3,968)	(\$2,590)	(\$1,638)	(20,376)*	\$51
Net income (loss) per share	(\$0.00)	\$0.00	\$0.04	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	\$0.00

* \$17,046 of the \$20,376 loss in three months ended February 28, 2017 was related to our Goodwill Impairment and Accounts Receivable write down, due to the exiting of previous Management. Without this impairment and write down the Net Loss was \$3,330.

ABOUT OUR BUSINESS

BLVD Centers business summary

BLVD Centers is a public Canadian company focused on the United States inpatient (detox and residential) and outpatient rehabilitation market and serves clients with addictive and co-occurring disorders. In March 2017, BLVD Centers shifted to a strategy where it decentralized major operations, including sales and marketing. All facility management and staffing decisions, including sales and marketing, will now reside with the local leadership at each individual center through a management services agreement ("MSA"). This new model has allowed BLVD Centers to reduce costs while simultaneously increasing revenue.

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The Board and management has adopted this new model to take advantage of BLVD Centers competitive advantages, while reducing costs and shrinking implementation periods. BLVD Centers shifted the clinical and operational staff management and hiring at each individual center, as well as the majority of the sales and marketing responsibilities of the clinics, to the local general managers and outreach leaders through an MSA, enabling these leaders to make cost decisions independently. The model allows local operators to keep some of the annual cash flow generated from their operations and aligns incentives between shareholders and operators.

These leaders have been established at the current seven sites, in some cases for as long as two years. Because of the previous "centralized" management model, they were restricted from hiring local staff and managing the center as a "stand alone" or decentralized model. Further, they did not have an incentive to use local marketing techniques, which are often a fraction of the cost of national advertising. The previous management team attempted to centralize all aspects of the centers, from staffing and back office to sales and marketing, resulting in a tremendous amount of time, energy and money with no real revenue growth.

Under the new model, BLVD Centers will continue to own or lease the current facilities (depending on the market) and provide branding support, facilities (real estate, furniture, fixtures and equipment) management and upkeep, call center services, clinical protocols, and documentation support to all existing centers. BLVD Centers will continue to maintain control of these facilities in the event a change in local management is someday needed. For new facilities, BLVD Centers will have the flexibility to decide whether to own or lease, and management will focus upon speed to profitability and return on equity in deciding upon the proper structure. BLVD Centers has shifted corporate ownership costs to the local operational and outreach leaders, incentivizing them like partners instead of employees.

Key performance drivers

BLVD Centers revenues are based on the enrollment of clients that suffer from addiction requiring them to get inpatient and outpatient care for recovery. Overall capacity and occupancy rates are, therefore, key drivers of profitability. Operational effectiveness of these facilities, one reason for pivoting to the new business model, is a key to achieving industry-leading client success rates and maintaining insurance reimbursement.

The growing demand for inpatient and outpatient services nationally provides significant opportunity to garner market share. The Company's operational efficiency and marketing strategy are key going forward to driving more partner business to BLVD Centers, thus increasing revenues and gross profits.

Future outlook

Under the new model, BLVD Centers will be able to focus our time and resources on finding and developing new centers, as well as additional services, with local operators around the country to grow revenues rather than spending our time managing and controlling middle management layers of staff. We have a strong offering in the areas that are difficult for a single, local operator to succeed. By licensing our brand, providing access to our call center, facilities expertise and clinical protocols, we can deliver a turnkey center to a local operator quickly and for much less than we used to under the old model, all while collecting a healthy percentage of revenues from these centers with very little risk, improving our return on equity significantly.

OPERATING RESULTS

Accounting policies and estimates

The consolidated financial statements for the period ended November 30, 2016 are prepared 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. The Company's critical accounting estimates are described under Accounting and Disclosure Matters below.

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

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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 start-up activities 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 as they generally represent the wear and tear on our property, as well as the 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 as it generally represents the taxes. The taxes may be payable for the period, which will change 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.
- Facility start-up costs may be useful for investors to consider because they represent costs directly related to facilities that have yet to be opened and accordingly not yet generating revenues. Facility start-up costs include: pre-opening rent expense, non-capitalized building expense, permit fees, pre-opening training costs, and compensation costs of employees hired to work at the new facilities. We view 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 non-IFRS measures reconciled to net income/loss for the indicated periods:

	Quarter Ended March 31, 2017	Quarter Ended March 31, 2016
Net income	\$51	(\$3,968)
Add back:		
Depreciation and amortization	179	366
Interest expense (net of interest income)	49	1
Provision for income taxes	20	0
EBITDA	298	-3,601
Stock-based compensation	210	558
One-time Non-recurring Cost	0	1,019
Facility Set Up	87	307
5 Adjusted EBITDA	\$596	(\$1,717)

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Consolidated operating results

	Three months ended May 31, 2017	Three months ended May 31, 2016
Revenues	\$9,033	\$7,288
Cost of services	4,620	3,430
Gross Profit	4,413	3,859
Expenses		
Facilities	\$422	\$733
Sales and marketing	320	1,313
Bad debt expense	1,718	947
New facility start-up costs and nonrecurring cost	87	2,561
General and administrative	853	557
Billing and other outside services	524	784
Depreciation and amortization	179	366
Stock based compensation (note 4)	210	558
Realized foreign exchange		7
Interest expense/(income)	48	1
Goodwill impairment	-	
Net Income (loss) before income taxes	52	(3,968)
Deferred tax recovery (note 13)		-
Net Income (loss)	52	(3,968)

Revenue

For the three months ended May 31, 2017 and May 31, 2016, revenue totaled \$9,033 and \$7,288, respectively, representing 24% quarterly growth. Management attributes the growth in revenue to the improved business model enacted in this quarter.

Cost of revenue and gross profit

For the three months ended May 31, 2017 and May 31, 2016, cost of revenue was \$4,620 and \$3,430, respectively, and gross profit was 48.9% and 53.0%, respectively. Management believes the improvement in cost of sales is a result of the new business model that BLVD Centers has employed.

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 May 31, 2017 and May 31, 2016, facilities expense totaled \$422 and \$733, respectively. Management believes the decrease in facilities expense is a result of its new business model.

Sales and marketing

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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 May 31, 2017 and May 31, 2016, sales and marketing expenses totaled \$320 and \$1,313, 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. In addition, there are new facility start-up costs, professional and legal services and other general overhead.

For the three months ended May 31, 2017 and May 31, 2016, general and administrative expenses were \$853 and \$557 respectively. The increase can be attributed to significantly increasing facility capacity, staffing, and back-office investments.

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 May 31, 2017 and May 31, 2016,, stock based compensation costs were \$210 and \$558, respectively.

Net Income/Loss

For the three months ended May 31, 2017 and May 31, 2016, the Company incurred a net income/(loss) of \$51 and (\$3,968), respectively.

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Consolidated Statements of Financial Position

	May 31, 2017	February 28, 2017
ASSETS		
Current		
Cash and restricted cash (note 4)	\$6,086	\$8,982
Accounts receivable, net (note 4 and 5)	10,857	8,373
Prepaid expenses	890	1,416
Other current assets	1,535	8
Total current assets	\$19,368	\$18,779
Long-term		
Property, plant and equipment (note 4 and 6)	\$4,735	\$4,775
Prepaid Finance Fee		\$1,396
Deposits and other assets	380	368
Goodwill (note 4 and 7)	-	-
Intangible assets, net (note 4 and 7)	43	41
Deferred tax assets	552	-
Total long-term assets	\$5,710	\$6,580
TOTAL ASSETS	\$25,078	\$25,359
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$6,863	\$4,274
Current portion of finance leases (note 8)	97	2,760
Total current liabilities	\$6,960	\$7,034
Long-term liabilities		
Long-term portion of finance leases (note 8)	\$2,153	\$2,185
Deferred tax liabilities	146	-
Total long-term liabilities	\$2,299	\$2,185
TOTAL LIABILITIES	\$9,259	\$9,219
SHAREHOLDERS' EQUITY		
Share capital (note 9)	\$40,723	\$40,718
Shares to be Issued	\$2,340	\$2,340
Contributed surplus	4,471	4,471
Accumulated other comprehensive gain	2,337	2,716
Accumulated deficit	(34,052)	(34,105)
TOTAL SHAREHOLDERS EQUITY	\$15,819	\$16,140
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$25,078	\$25,359

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Liquidity

As of May 31, 2017, the Company had cash and restricted cash on hand of \$6,086. Management considers liquid assets to consist of cash and cash equivalents, restricted cash, accounts receivable, inventory, prepaid expenses and other current assets. According to this definition, the company's liquid assets equal the current assets totaling \$19,367. 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 \$12,504.

Contractual obligations

	31-May-17	31-May-16
Finance lease and other borrowings (a)	\$2,250	\$107
Less:		
Current portion of finance lease and other borrowings	-\$97	(46)
Long-term portion of finance lease and other borrowings	\$2,153	\$61

Operating Leases

The Company leases certain facilities under the terms of non-cancelable operating leases. For the three months ended May 31, 2017 amounts included in facilities expense totaled \$652 and \$2,354, respectively.

Capital leases

The company has capital lease obligations related to vehicles and laboratory equipment with terms of two to three years and fixed interest rates between 2.9% and 7.0%.

Capital Management

The Company considers its capital to be shareholders' equity, which is comprised of share capital, contributed surplus, deficit and accumulated other comprehensive income and deficit, which totaled \$35,549 at May 31, 2017, as well as long-term debt, which totaled \$2,283 at May 31, 2017.

The Company plans to raise capital and/or debt, 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

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 BLVD Centers issued at \$0.40 per common share, and one warrant of BLVD Centers. 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 BLVD Centers 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

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is greater than \$0.60 for any 20 consecutive trading days. The Company received gross proceeds of \$17,250 and incurred cash share issuance costs of \$1,467 for total net proceeds of \$15,783. In addition, the Company issued 2,156,250 broker warrants to the underwriters.

Share Capital

	May 31, 2017	May 31, 2016
Authorized		
Unlimited voting common shares without par value		
Issued		
232,617,234 voting common shares (2016 - 228,032,550)	\$40,718	\$40,235
Changes to share capital:		
	Number of Shares	Amount
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	2,648
Shares issued through bought deal private placement (vi)	43,125,000	10,547
Exercise of options (vii)	2,000,000	348
Exercise of warrants (vii)	64,781,500	17,488
Shares issued for purchase of Harmony Hollywood and ARTS (viii)	12,000,000	4,500
As of February 29, 2016	227,966,050	\$40,235
Exercise of warrants (ix)	66,500	7
Shares issued for Sawtelle Recovery (x)	4,350,000	457
Shares issued for compensation	234,684	24
As of February 28, 2017	232,617,234	\$40,723
Exercise of warrants (ix)	-	-
Shares issued for compensation	-	-
As of May 31, 2017	232,617,234	\$40,723

As of the date of this report 232,617,234 shares are outstanding.

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.

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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.

There were no substantive changes in the Company's disclosure controls and procedures and internal controls over financial reporting during the period ended May 31, 2017 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.

Recognition of revenues

The majority of the Company's revenues are reimbursable by commercial payors, at out-of-network rates, with the remaining revenues payable directly by our clients. The Company bills commercial payors, once insurance has been verified and services have been performed, based on usual and customary rates for each service. Revenues from commercial payors are recognized based on expected realizable rates using historical collections rates by payor for each service provided. If no collections data is available for a payor (for example where the payor is new to the Company), the Company uses the Company-wide average reimbursement rate for that particular service. If commercial payors change their reimbursement rates for services already provided but not yet reimbursed, or a new payor rate is different from the estimated rate used, revenue is adjusted to account for the new rates. 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 the Company's recorded revenues and consequently, reported earnings.

Valuation of accounts receivable

The Company records bad debt expense based on the Company's historical experience of denials from commercial insurers. While the Company has controls in place to minimize the occurrence of denials, the underlying client insurance policy and deductible status is not always available at the time services are provided. Denials can be as a result of termed policies, client deductibles not met, client max benefits met, medical necessity not met, etc. In addition, management reviews accounts receivable in detail at each reporting period and provides for specific accounts that are deemed to not be collectible. 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. If circumstances related to certain customers change or actual results differ from expectations, the Company's estimate of the recoverability of receivables could fluctuate from that provided for in the consolidated financial statements. A change in estimate could impact bad debt expense and accounts receivable.

Stock based Compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of the Company's issued stock options and warrants as prescribed by IFRS 2. The Black-Scholes option pricing model requires management to make various estimates about certain inputs into the model, including the expected option life, expected volatility, risk-free interest rate and expected dividend yield. The company uses the following methodologies to estimate each of these inputs:

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Black-Scholes Input	Assumption	Methodology
Expected option/warrant life	5 years/2 years	The life of the option or warrant is used
Expected volatility	96.4%	The trading volatility of similar companies as well as its own trading volatility for the previous 52 week period
Risk-free interest rate	0.58-0.98%	The Canadian Treasury rate on government bonds with similar duration
Dividend yield	Nil	The Company's expected dividend yield over the life of the underlying instrument

A change in any of these estimates at the time the underlying options or warrants were issued would have impacted the Company's equity and ongoing stock-based compensation expense.

Changes in accounting policies including initial adoption

There were no accounting policy changes or adoption of new accounting policies in the three months ended May 31, 2017.

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.

Market risk

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.

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.

Credit Risk

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.

The Company's customers are generally large, financially stable, commercial insurers and accordingly credit risk associated with each of them is considered low. Credit risk is generally limited to the risk that the estimated amount of revenue that can be collected is not accurate.

Liquidity Risk

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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.

RISK FACTORS

Due to the nature of BLVD Centers' business, the legal and economic climate in which BLVD Centers operates and the present stage of development of its business, BLVD Centers may be subject to significant risks. BLVD Centers' 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 BLVD Centers will be able to implement successfully the strategy set out herein. No representation is or can be made as to the future performance of BLVD Centers and there can be no assurance that BLVD Centers 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 BLVD Centers' shares should be considered highly speculative due to the nature of BLVD Centers' business and the. In evaluating BLVD Centers 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 BLVD Centers 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 BLVD Centers is unaware of, or that BLVD Centers currently deems to be immaterial, may also become important factors that affect BLVD Centers. 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 BLVD Centers or BLVD Centers' shares, as applicable, could decline and the shareholder could lose all or part of his or her investment.

Capital Investment

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

Competition

BLVD Centers 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. BLVD Centers will have less capital and may encounter greater operational challenges in serving the market.

Dependence upon Management

Although BLVD Centers is expected to have experienced senior management and personnel, BLVD Centers will be substantially dependent upon the services of a few key personnel 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 BLVD Centers. BLVD Centers 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 BLVD Centers' business is heavily dependent upon the successful implementation of BLVD Centers' business strategy. There can be no assurance that BLVD Centers will be successful in the implementation of its business strategy.

Issuance of Debt

From time to time, BLVD Centers 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 BLVD Centers' debt levels above industry standards. The level of BLVD Centers' indebtedness from time to time could impair BLVD Centers' ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Conflicts of Interest

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Certain of the directors of BLVD Centers 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 BLVD Centers 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 BLVD Centers Shares

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

Future Sales of BLVD Centers 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 BLVD Centers in the future. No prediction can be made as to the effect, if any, such future sales will have on the market price of BLVD Centers' securities prevailing from time to time. However, the future sale of a substantial number of securities by BLVD Centers' directors and officers and their controlled entities, or the perception that such sales could occur, could adversely affect prevailing market prices for BLVD Centers' securities.

Reimbursement Rates May Decline

Reimbursement for services to be provided by BLVD Centers come primarily from private health insurance companies. The reimbursement rates offered are out-of-network and therefore outside the control of BLVD Centers. 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 BLVD Centers.

Reductions in reimbursement rates can have a material impact on the profitability of BLVD Centers' operations. A reduction in reimbursement may be unrelated to any concurrent decline in the cost of operations, thereby resulting in reduced profitability. BLVD Centers' 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 BLVD Centers require certain licenses and permits from the authorities in the United States. Licenses and permits may include those issued by both governmental and non-governmental entities. Private insurance companies may require that providers obtain accreditation from non-governmental entities in order to provide service to their patients, or may require providers to agree to sign up for in-network agreements, which may have the impact of lowering reimbursement rates. Private insurers may change their practices with limited or no notice to BLVD Centers. The ability of BLVD Centers 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 BLVD Centers will be able to obtain or maintain such licenses and permits.

BLVD Centers will be subject to regulation from both United States federal and state authorities. Regulatory action could disrupt BLVD Centers' ability to provide services. Such regulatory action could come in the form of actions based upon BLVD Centers' operation. Regulatory action could prevent or delay reimbursement for certain services. There could also be legislative action that could adversely affect BLVD Centers' business model, including a decision by the United States government, to become the exclusive provider of healthcare services at some time in the future. Amendments to current laws and regulations could have a substantial adverse impact on BLVD Centers. Private insurers also have complex rules relating to reimbursement, and the failure of BLVD Centers to follow those rules may impact the ability to collect on amounts billed, and may expose BLVD Centers to the risk of audits on amounts that have already been collected.

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.

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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.

BLVD Centers 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, BLVD Centers 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.

Information Technology Systems

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

Insurance and Uninsured Risks

BLVD Centers' 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 BLVD Centers, or the properties of others, monetary losses and possible legal liability.

Although BLVD Centers 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. BLVD Centers 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. BLVD Centers might also become subject to liability which may not be insured against or which BLVD Centers may elect not to insure against because of premium costs or other reasons. Losses from these events may cause BLVD Centers 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, BLVD Centers 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 BLVD Centers' insurance arrangements will be sufficient to cover any particular claim or claims that may arise in the future. Furthermore, BLVD Centers 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 BLVD Centers 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

BLVD Centers 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 BLVD Centers shares are subject to risks attributable to its subsidiaries. As a holding corporation, BLVD Centers conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenue. Consequently, BLVD Centers' 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 BLVD Centers. The ability of the subsidiaries of BLVD Centers 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 BLVD Centers' 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 BLVD Centers.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

BLVD Centers 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

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adequate internal controls over financial reporting appropriate to the nature and size of BLVD Centers. 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 BLVD Centers' financial statements being inaccurate and in future adjustments or restatements of its financial statements, which could adversely affect the price of BLVD Centers shares and BLVD Centers' business, financial condition and results of operations.

Key Credentialed Employees

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

Ability to Implement New Business Model

BLVD Centers may not be able to effectively implement its new business model. There is the possibility that BLVD Centers will not be able to 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 BLVD Centers' business, financial condition and results of operations. Collection of receivables from third-party payors and clients is critical to BLVD Centers' operating performance. The primary collection risks are (i) the risk of overestimating BLVD Centers' net revenues at the time of billing that may result in BLVD Centers 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 BLVD Centers when the commercial insurance company pays out-of-network claims directly to the client, (iv) resource and capacity constraints that may prevent BLVD Centers from handling the volume of billing and collection issues in a timely manner, (v) the risk that clients do not pay BLVD Centers 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 BLVD Centers' collection of accounts receivable, cash flows and results of operations. Changes to the *Affordable Care Act* or other changes in law or regulation, including provisions requiring health insurers to allow parents to insure dependent children up to 26 years of age, could also increase the number of individuals who have private health insurance.

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 BLVD Centers' facilities, physicians and other clinicians furnishing services in BLVD Centers' facilities, or BLVD Centers' 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 BLVD Centers' operations. Any governmental investigations involving any of BLVD Centers' facilities, executives or directors, even if BLVD Centers ultimately prevails, could result in significant expense and could adversely affect BLVD Centers' 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 BLVD Centers. Further, BLVD Centers expects increased demand for substance abuse treatment services to also increase the demand for case managers, therapists, medical

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technicians and others with clinical expertise in substance abuse treatment, which may make it both more difficult to adequately staff BLVD Centers' 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, BLVD Centers expects more services to be furnished within provider networks formed to accept these types of payment reform.

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

Changes to Federal, State and Local Regulations

Because BLVD Centers' treatment programs and operations are regulated at federal, state and local levels, BLVD Centers 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 BLVD Centers' operating costs, and BLVD Centers may not be able to recover these increased costs, which may adversely affect BLVD Centers' results of operations and profitability. Also, because many of the current laws and regulations are relatively new, BLVD Centers 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 BLVD Centers' current or past practices to allegations of impropriety or illegality or could require BLVD Centers to make changes to its treatment facilities, equipment, personnel, services or capital expenditure programs. A determination that BLVD Centers has violated these laws, or the public announcement that BLVD Centers is being investigated for possible violations of these laws, could adversely affect BLVD Centers' business, operating results and overall reputation in the marketplace. In addition, federal, state and local regulations may be enacted that impose additional requirements on BLVD Centers' facilities, such as the 2013 changes to the HIPAA privacy and security regulations. Adoption of legislation or the creation of new regulations affecting BLVD Centers' 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 BLVD Centers' ability to operate its existing facilities or acquire new facilities, which may adversely affect its results of operations and profitability.

Estimates of reimbursement amounts for services performed

BLVD Centers recognizes revenues from commercial payors at the time services are provided based on estimates of the amount that payors will pay the Company for the services performed. Management estimates the net realizable value of revenues by adjusting gross client charges using expected realization rates and applying this discount to gross client charges. Expected realization is determined by management after taking into account historical collections received from commercial payors in the prior nine-month period by facility, by type of service and by payer. 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 actual collections either exceed or are less than the net realizable value estimates, the Company 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. A significant negative revenue adjustment could have a material adverse effect on our revenues, profitability and cash flows in the reporting period in which such adjustment is recorded. In addition, if we record a significant revenue adjustment, either positive or negative, in any given reporting period, it may lead to significant shifts in our results from operations from quarter to quarter, which may limit our ability to make accurate long-term predictions about our future performance.