Action # 1001-06509

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

BETWEEN:

ALBERTA HEALTH SERVICES

Plaintiff

-and-

NETWORC HEALTH INC.

Defendant

THIRD REPORT OF PRICEWATERHOUSECOOPERS INC.,
in its capacity as Interim Receiver of Networc Health Inc.
August 17, 2010

INTRODUCTION

1. This report (the "Third Report") is filed by PricewaterhouseCoopers Inc. ("PwC"), in its capacity as interim receiver (the "IR"), of all of the financial records and accounts (the "Records") of Networc Health Inc. ("NHI" or the "Company") with the further authority to investigate, observe and monitor the assets, undertakings and properties of the Company acquired for, or used in relation to the Company's business, including all proceeds thereof and including all medical services provided by the Company.

2. PwC was appointed as IR by a Consent Interim Receivership Order granted by the Court of Queen's Bench of Alberta (the "Court") on May 3, 2010 (the "Receivership Order"). The Receivership Order was amended on May 11, 2010 (the "Amended Receivership Order").

3. In preparing this Third Report the IR has relied upon unaudited financial information, Company records, discussions with management and information obtained from Alberta Health Services ("AHS"). The IR has not performed an audit, review or other verification of such information. The IR does not express an opinion on the financial information contained herein.

4. It is recommended that this Third Report be read in conjunction with the First Report of the IR, dated May 10, 2010 (the "May Report") and the Second Report of the IR dated June 8, 2010 (the "June Report"). Capitalized words in this Third Report carry the same meaning as in the May and June Reports.

5. The purpose of this report is to provide the Court with:

   (a) an update on the status of the interim receivership of NHI;

   (b) updated estimated cash flows from the provision of anticipated future medical services; and

   (c) the IR's initial comments on the status of the draft proposal to employees (the "Draft Employee Proposal" or the "Proposal") circulated to NHI, IR and their respective legal counsel on or before August 12, 2010 but not yet forwarded to the affected employees.

STATUS UPDATE ON NHI

6. NHI continues to perform medical and surgical services on an uninterrupted basis.

7. For the month of June 2010, 112 AHS procedures were completed, 12 more than the Base Case projection of 100 AHS procedures set out in the June Report.

8. For the month of July 2010, 65 AHS procedures were completed, 10 less than the Base Case projection of 75 AHS procedures and 25 less than the Summer Push projection of 90 as set out in the June Report.

9. NHI staff and management continue to cooperate with the IR.

SECOND REVISED CASH FLOW PROJECTION

10. With the continued assistance and input of both AHS and NHI, the IR has prepared a revised cash flow projection (the "Second Revised Projection") for the period May 3, 2010 to January 15, 2011.

11. The Second Revised Projection is an update of the Revised Projection presented in the June Report and has been prepared using similar assumptions. The key variable between the two cases is the total projected number of AHS procedures:

   (a) Updated Base Case – 743 procedures, down 45 from the 788 procedures estimated in the Revised Projection.

      (i) The updated volumes were based on discussions with AHS and the NHI operations manager; and

      (ii) They represent a consensus as to the expected (AHS) or conservative (NHI) go forward volumes under the assumption that NHI continues to perform AHS procedures until January 15, 2011.

   (b) Updated Summer Push – 781 procedures, down 43 from 824 procedures estimated in the Revised Projection.

(i) NHI management indicated to the IR that the Company's internal projections include an extra 38 AHS procedures for the period of September 1, 2010 to January 15, 2011.

12. A summary of the Second Revised Projection was circulated to both NHI and AHS and comments received from NHI and AHS have been incorporated.

13. Other than the number of AHS procedures, incremental revenue and some non-material changes to the variable costs, the assumptions of the Updated Summer Push and the Updated Base Case are identical.

14. The Second Revised Projection, with totals for the Updated Base Case and the Updated Summer Push is summarized in the table below:

Interim Receivership of NHI
SECOND REVISED PROJECTION - Cashflow Forecast May 3, 2010 to January 15, 2011
Date Prepared 12-Aug-10

($000's)	*ACTUAL*	*ACTUAL*	*ACTUAL*	*Estimated*	*Estimated*	*Estimated*	*Estimated*	*Estimated*	*Estimated*	*Estimated*	*Estimated* Updated Base Case		*Estimated* Updated Summer Push
Month Ending	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Post Jan 15			
# of AHS Procedures	*96*	*112*	*65*	*66*	*90*	*92*	*95*	*79*	*48*		*743*		*781*
Opening Cash Balance	**877**	**549**	**540**	**585**	**383**	**230**	**(44)**	**(127)**	**(105)**	**(589)**			
Inflows:													
AHS	508	875	1,045	480	757	752	745	896	184	413	6,654		6,971
WCB	41	596	400	203	238	388	343	325	128	171	2,832		2,832
Other	4	32	52	13	10	12	10	10	5	6	156		156
Net Inflow	**554**	**1,503**	**1,497**	**696**	**1,005**	**1,152**	**1,098**	**1,231**	**317**	**589**	**9,642**		**9,959**
OUTFLOWS:													
Direct expenses:													
Staffing	496	554	563	483	518	543	487	512	302	53	4,511		4,508
Supplies	84	259	260	137	192	376	277	266	84	82	2,017		2,054
Services	35	87	62	79	89	102	73	86	83	24	719		719
NET	615	899	885	699	799	1,020	837	864	469	159	7,247		7,282
Overhead/General:													
Overhead	148	211	313	28	180	204	174	174	170	5	1,607		1,607
Contingency	0	0	0	25	49	72	40	52	42	8	288		290
NET	148	211	313	53	229	276	214	225	212	14	1,895		1,897
Net Outflow	**(764)**	**(1,110)**	**(1,198)**	**(752)**	**(1,028)**	**(1,296)**	**(1,051)**	**(1,090)**	**(681)**	**(173)**	**(9,142)**		**(9,179)**
Operating Margin	**(210)**	**393**	**299**	**(56)**	**(23)**	**(144)**	**47**	**142**	**(364)**	**417**	**500**	a	**780**
Professional Expenses													
David Loader	0	27	0	5	5	5	5	5	5	5	62		62
FMC	0	53	0	0	0	0	0	0	0	0	53		53
Osler	0	0	146	50	50	50	50	50	50	0	446		446
Macleod Dixon	0	63	6	16	20	20	20	10	10	20	185		185
Interim Receiver (IR)	0	260	101	75	55	55	55	55	55	55	766		766
Total	**0**	**402**	**253**	**146**	**130**	**130**	**130**	**120**	**120**	**80**	**1,512**	b	**1,512**
Pre-IR Employee Exp	**(118)**										**(118)**	c	**(118)**
Closing Cash Bal	**549**	**540**	**585**	**383**	**230**	**(44)**	**(127)**	**(105)**	**(589)**	**(252)**	(1,129)	a-b+c	
										Opening Cash Balance	877		
										Net Cash Position	**(252)**		
Updated Summer Push Closing Cash Balance	**549**	**540**	**585**	**391**	**329**	**113**	**59**	**148**	**(324)**	**27**		a-b+c	(849)
												Opening Cash Balance	877
# of AHS Procedures	*96*	*112*	*65*	*66*	*104*	*104*	*104*	*80*	*50*	*781*		Net Cash Position	**27**

15. In addition to the volume of AHS procedures reflected in the Updated Base Case and Updated Summer Push, the Second Revised Projection is based on the same assumptions used for the Revised Projection which include:

(a) WCB volumes consistent with prior year (WCB has advised the IR that it intends to continue to refer its requirements to NHI at volumes similar to the past year);

(b) Seasonal volume fluctuations consistent with those of past year;

(c) AHS fixed and variable cost structures consistent with prior year;

(d) WCB gross margins consistent with prior year;

(e) Staffing costs are based on actual payroll figures, with marginal volume variance;

(f) Senior management salaries and associated expenses consistent with prior year;

(g) Supply, service and general administrative costs consistent with prior year;

(h) Continued payment of HRC lease to Northwest Healthcare Properties Holdings Incorporated;

(i) No provision for repayment of the outstanding Receiver's Certificate balance of $500k plus interest;

(j) No provision for repayment of the outstanding AHS Operating Line balance of approximately $603k plus interest;

(k) Term debt monthly payment obligations to related to the AHS Capex Line associated with equipment located at the HRC facility and the Cambrian Facilities, together with other equipment rental payments for the period have been included;

(l) All costs are based on current contracts and historical costs. The timing of payments is based on NHI's current payment schedule as communicated by NHI;

(m) A contingency based on 5% of the expenses has been provided for; and

(n) Obligations to employees upon the termination of the interim receivership, if any, have not been provided for in the cash flow projections.

16. The projections for the period from November 15, 2010 to the end of the Second Revised Projection will be significantly affected if AHS transfers surgeries to the McCaig facility as projected in November 2010.

ANALYSIS OF SECOND REVISED PROJECTION

17. The Second Revised Projection incorporates actual results for the months of May to July 2010 and projected results from August 2010 to January 15, 2011.

18. The charts below illustrate the changes in ending cash balances (after collection of outstanding receivables and payment of post IR obligations but before payment of receiver's certificate and secured debt) and potential timing for additional borrowing requirements between the Revised and Second Revised Projections.

Chart 1 - Base Case vs. Summer Push (as previously presented in the June Report)

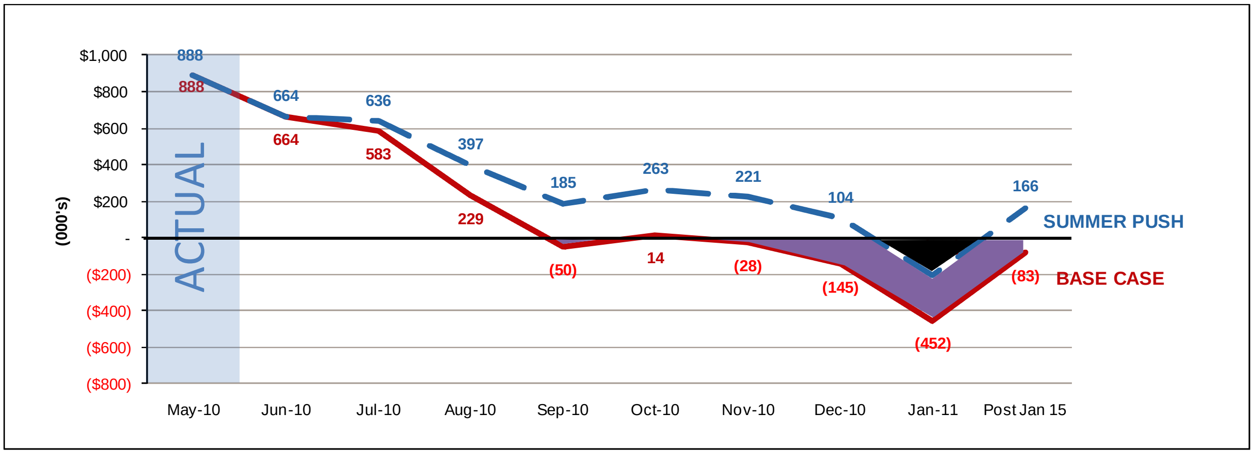
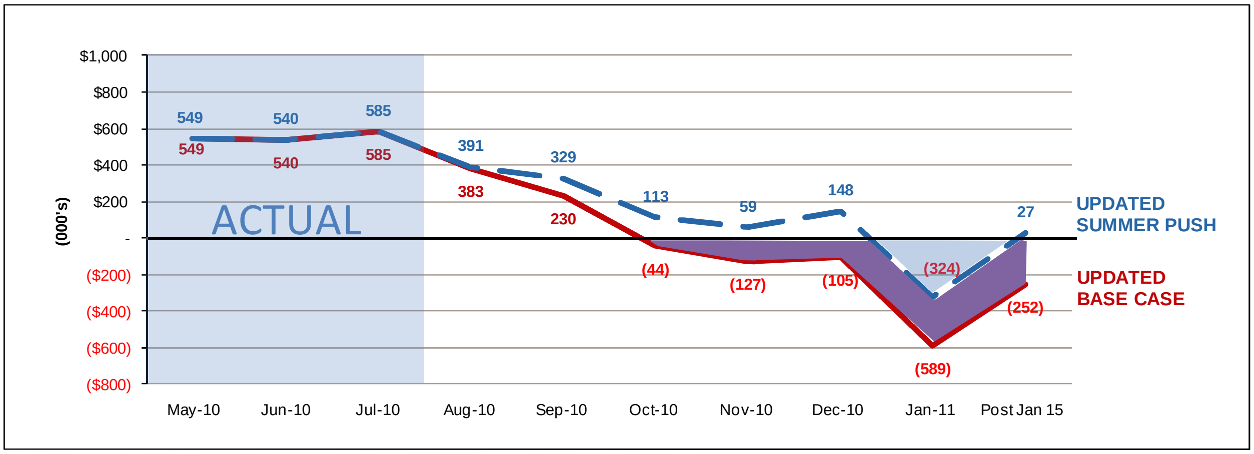


Chart 2 – Updated Base Case vs. Updated Summer Push



19. The actual results are represented in the lightly shaded area on the left side of each of the charts. The actual ending cash balance for May is lower in Chart 2 than in Chart 1. The model used to present the Revised Projection in the June Report was summarized based on weekly cash flows and the results for the week ending June 4th, which commenced on May 30th, were erroneously included in the actual results for May. This has been corrected in the Second Revised Projection. This change corrects an allocation between months and does not affect overall results of the projections.

20. In the Updated Base Case, the IR estimates that the projected cash balance on January 15, 2011 is a shortfall of approximately ($589k) before collecting outstanding receivables and paying post receivership costs. The projected balance as at January 15, 2011 after collecting all outstanding accounts receivables and paying all post receivership costs is a shortfall of approximately ($252k) which is $169k lower than Base Case presented in the June Report.

21. The Updated Base Case also indicates that the IR may have additional borrowing requirements (in excess of the $500k Receiver's Certificate that is already fully drawn) as early October, 2010.

22. In the Updated Summer Push, the IR estimates that the projected cash balance on January 15, 2011 is a shortfall of approximately ($324k) before collecting outstanding receivables and paying post receivership costs. The projected balance as at January 15, 2011 after collecting all outstanding accounts receivables and paying all post receivership costs is a positive balance of approximately $27k which is $139k lower than the Summer Push presented in the June Report.

23. The Updated Summer Push indicates that the IR may only have borrowing requirements (in excess of the $500k Receiver's Certificate that is already fully drawn) for a short period while outstanding receivables are being collected in January 2011.

24. The Charts illustrate that the projected cash flows associated with the Second Revised Projection have eroded and are lower than those presented in the Revised Projection. As discussed in the June Report, the key variable affecting NHI's cash flow is the volume of procedures.

25. Actual volume of AHS procedures for the months of June to August (August volumes are based on actual plus booked) were significantly lower than projected.

# of AHS Procedures	**May-10**	**Jun-10**	**Jul-10**	**Aug-10**	**Total**
Summer Push	96	100	90	90	376
Base Case	96	100	75	75	346
Actual*	96	112	65	66	339

* Actual results for Aug based on procedures completed plus those booked to the end of the month

(a) Although June results were higher than projected, actual volumes for July and August fell significantly short of both the Base Case and the Summer Push.

(b) In the June Report, the IR noted that:

(i) "NHI management indicate that although volume is generally lower in the summer months due to vacation schedules, the Company has received indication from a number of surgeons that they would be willing and available to perform extra procedures if operating room space was available over the period of the Summer Push."

(c) However, as bookings were not made (consistent with the summer pattern in prior years), the additional surgeries did not occur and the Summer Push fell significantly short of target.

(d) NHI management informed the IR that the primary reason for the shortfall in actual procedures over the summer months was due to a lack of bookings resulting from surgeon vacations (which are outside of management's control). NHI management then indicated to the IR that had surgeons booked the volume of procedures projected in the Summer Push, NHI would have had sufficient capacity to meet the demand.

26. Projected volume of AHS procedures for the months of September 2010 to January 15, 2011 (subject to movement of AHS procedures to the McCaig facility prior to January 15, 2010) are as follows:

# of AHS Procedures	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**	**Jan-11**	**Total**
Updated Summer Push	104	104	104	80	50	442
Updated Base Case	90	92	95	79	48	404

(a) The Updated Summer Push reflects NHI management's estimates of AHS procedure volumes for the period of September 2010 to January 15, 2011 and these estimates are significantly higher than those presented in the Updated Base Case.

(b) NHI management indicated to the IR that September, October and November are typically busy months and operating slates ("Slates") are available to do 104 AHS procedures for each of these months. As long as the surgeons book to fill these Slates, NHI has the capacity to manage the additional cases. They also indicated that surgeons are returning from their vacations and the September Slate is already starting to book up.

ESTIMATE OF FINAL POSITION

27. As with the Revised Projection presented in the June Report, neither the Updated Base Case nor the Updated Summer Push provides for any repayment of obligations relating to the receiver's certificate, the AHS Operating Line, the AHS Capex Line or interest. The table below, adjusted for closing working capital, illustrates the respective January 15, 2011 final positions for both cases:

($000's)	Updated Base Case	Updated Summer Push
Second Revised Projection Closing Cash Balance	(252)	27
less:		
Receiver's Certificate	(500)	(500)
AHS Operating Line	(603)	(603)
AHS Capex Line	(560)	(560)
Shortfall	**(1,915)**	**(1,636)**
Revised Projection Closing Cash Balance	(1,746)	(1,497)
Variance	(169)	(139)

28. In both cases, the total shortfall is significant and worse than that presented in the June Report. In addition, this calculation does not provide any for payment of NHI's unsecured pre-receivership obligations.

AHS DRAFT EMPLOYEE PROPOSAL

29. On August 11, 2010, counsel for AHS provided the IR with the Draft Employee Proposal, a copy of which is attached to the affidavit of Chris Mazurkewich dated August 16, 2010.

30. The Proposal contemplated AHS making conditional offers to the clinical employees of NHI on or before August 13, 2010.

31. The Proposal does not contemplate the provision of offers to the non-clinical employees of NHI. However, the IR is advised that AHS is continuing to assess employment opportunities to the non-clinical employees.

32. The IR has been advised by counsel that NHI does not support the Draft Employee Proposal and has advised counsel for AHS that it does not consent to the distribution of the conditional offers to the clinical staff of NHI.

All of which is respectfully submitted,

PricewaterhouseCoopers Inc.

PRICEWATERHOUSECOOPERS INC.,
in its capacity as Interim Receiver of Networc Health Inc.
and not in its personal capacity

Action No. 1001 -06509

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August 17, 2010

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