

**UNAUDITED CONDENSED
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
OF
KOVO HEALTHTECH CORPORATION**

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020**

Condensed Consolidated Statements of Financial Position

	Note	September 30, 2021 \$	December 31, 2020 \$
Assets			
Current			
Cash		456	153
Accounts receivable	6	136	73
Other receivables and prepaid expenses	6	444	209
Notes receivable	6	-	13
		1,036	448
Non-current			
Right of use assets	7	246	132
Intangible assets	8	2,235	1,620
Goodwill		1,057	984
Total assets		4,574	3,184
Liabilities and shareholders' deficiency			
Current			
Accounts payable and accrued liabilities		1,050	538
Taxes payable		119	191
Short term debts	9	912	946
Contract liabilities		18	25
Due to related parties	14	-	139
Current portion of lease liabilities	10	119	44
		2,218	1,883
Non-current			
Long term debts	9	1,788	1,386
Derivative liability	9	105	-
Contingent consideration	9	472	434
Lease liabilities	10	141	95
Total liabilities		4,724	3,798
Shareholders' deficiency			
Share capital	12	4,215	2,489
Contributed surplus	12	312	206
Deficiency		(4,677)	(3,309)
Total shareholders' deficiency		(150)	(614)
Total liabilities and shareholders' equity		4,574	3,184

Commitment and contingencies (Note 15)

Subsequent events (Note 17)

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

KOVO HEALTHTECH CORPORATION
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(All amounts expressed in thousands of US dollars, except number of shares or per share amounts)

Condensed Consolidated Statements of Operations and Comprehensive Loss

	Note	For the three months ended		For the nine months ended	
		September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
Revenue					
RCM revenue		1,447	577	2,730	1,292
Inpatient systems		113	144	396	534
Ambulatory software		50	63	154	177
Software revenue		44	67	125	178
Total revenue		1,654	851	3,405	2,181
Operating expenses					
Salaries and benefits		1,181	630	2,883	1,667
General and administrative	11	597	228	1,186	740
Share-based compensation	12	34	19	97	149
Processing fees		22	25	67	80
Depreciation and amortization	7,8	150	53	384	161
Accretion expense on lease liabilities	10	7	6	20	18
Total operating expenses		1,991	961	4,637	2,815
Net operating loss		(337)	(110)	(1,232)	(634)
Other income (expense)					
Interest expense		(98)	(58)	(237)	(240)
Other expense		(86)	-	(86)	-
Reverse takeover transaction costs	5	-	-	(356)	-
Other income	9	45	(174)	543	144
Net other expense		(139)	(232)	(136)	(96)
Net loss and comprehensive loss		(476)	(342)	(1,368)	(730)
Loss per share					
Basic	13	(0.014)	(0.012)	(0.043)	(0.028)
Diluted	13	(0.014)	(0.012)	(0.043)	(0.028)
Weighted average number of common shares outstanding					
Basic	13	33,001,171	28,412,070	31,738,658	25,796,817
Diluted	13	33,001,171	28,412,070	31,738,658	25,796,817

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

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Condensed Consolidated Statements of Changes in Shareholders' Deficiency

	Note	Number of common shares outstanding *	Share capital \$	Contributed surplus \$	Deficiency \$	Total shareholders' deficiency \$
Balances as at December 31, 2019		15,000,000	1	72	(2,110)	(2,037)
Vesting of options issued	12	-	-	26	-	26
Issuance of shares and warrants on Axon acquisition	12	8,000,000	1,278	-	-	1,278
Financing in conjunction with Axon acquisition	12	1,960,000	371	57	-	428
Shares issued to settle promissory notes	12	720,000	136	21	-	157
Issuance of warrants to consultant	12	-	-	26	-	26
RPM acquisition share issuance	12	2,732,070	437	-	-	437
Net loss and comprehensive loss		-	-	-	(730)	(730)
Balances as at September 30, 2020		28,412,070	2,223	202	(2,840)	(415)

	Note	Number of common shares outstanding *	Share capital \$	Contributed surplus (distributions) \$	Deficiency \$	Total shareholders' deficiency \$
Balances as at December 31, 2020		29,552,070	2,489	206	(3,309)	(614)
Share-based compensation	12	-	-	97	-	97
Options exercised	12	63,020	23	(6)	-	17
Warrants exercised	12	1,640,000	390	(55)	-	335
Private placement, net of costs	12	634,200	609	-	-	609
Acquisition share issuance	12	1,111,881	774	-	-	774
Issuance of warrants through private placement	12	-	(64)	64	-	-
Broker warrants issued	12	-	(6)	6	-	-
Net loss and comprehensive loss		-	-	-	(1,368)	(1,368)
Balances as at September 30, 2021		33,001,171	4,215	312	(4,677)	(150)

*Shares have been retroactively restated to reflect share consolidation (Note 1)

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

KOVO HEALTHTECH CORPORATION
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(All amounts expressed in thousands of US dollars, except number of shares or per share amounts)

Condensed Consolidated Statements of Cash Flows

	Note	For the nine months ended	
		September 30, 2021	September 30, 2020
		\$	\$
OPERATING ACTIVITIES			
Net loss and comprehensive loss		(1,368)	(730)
Adjustments for non-cash items:			
Depreciation and amortization	7, 8	384	161
Reverse takeover transaction costs	5	356	-
Accretion of contingent consideration	9	20	-
Accretion expense on lease liabilities	10	20	17
Warrants issued	12	-	65
Share based compensation	12	97	87
Net foreign exchange loss		8	16
Interest expense		48	42
Other income		(21)	(45)
Net change in working capital:			
Accounts receivable		(51)	(4)
Due from related party		-	(136)
Other receivables		86	24
Contract assets		-	20
Accounts payable and accrued liabilities		173	102
Taxes payable		(72)	(30)
Contract liabilities		(7)	(70)
Net cash used in operating activities		(327)	(481)
INVESTING ACTIVITIES			
Additions to capitalized software costs	8	(122)	(123)
Receipts on notes receivable		13	168
Cash received in Axon acquisition		-	170
Cash received in Midwest acquisition	5	50	-
Cash received in reverse takeover transaction	5	202	-
Net cash provided by investing activities		143	215
FINANCING ACTIVITIES			
Net receipts on debt	9	600	667
Net payments on debt	9	(614)	(282)
Net payments to related parties	14	(139)	-
Receipts of common share issuances, net	12	609	-
Receipts of options exercised	12	17	-
Receipts of warrants exercised	12	84	-
Lease payments	10	(70)	(87)
Net cash provided by financing activities		487	298
Net increase in cash		303	32
Cash balance, beginning of the period		153	73
Cash balance, end of the period		456	105
Supplemental information			
Interest paid		(196)	(143)
Income taxes paid		(72)	-
Promissory notes issued for options exercised		17	-
Promissory notes issued for warrants exercised		251	-
Share consideration for acquisitions		774	1,715
Share consideration for settlement of debt		-	136

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KOVO HEALTHTECH CORPORATION
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(All amounts expressed in thousands of US dollars, except number of shares or per share amounts)

1. NATURE OF OPERATIONS AND GOING CONCERN

Kovo HealthTech Corporation (“Kovo” or the “Company”) was incorporated in British Columbia, Canada on February 20, 2020. The Company’s head office is 1600 – 925 West Georgia Street, Vancouver, BC, V6C 3L2, Canada.

The Company sells services and software to medical clinics and medical facilities. There are four revenue streams generated through a combination of internal software development and acquisition of existing businesses and assets. The key business lines include:

- Recurring Revenue from Revenue Cycle Management Services (“RCM” revenue)
- Recurring licensing revenue from Inpatient systems
- Recurring SaaS revenue for Ambulatory software and eHealth software
- Recurring revenue from associated services for our products (such as, electronic claim process, eligibility for reimbursement verifications, and electronic remittance advice)

Kovo is primarily engaged in delivering software solutions and services including Revenue Cycle Management (“RCM”) and Electronic Health Records (“EHR”) to medical practices and hospitals. The Company acquires customers primarily through acquisition of existing RCM and other software businesses in the United States.

Reverse Takeover

On May 31, 2021, Kovo completed a reverse takeover transaction pursuant to the terms of an amalgamation agreement dated May 31, 2021, among Kovo, MedWorx Inc. (“MedWorxs”), a Colorado corporation, and MW Acquisition Corp. (“Merger Sub”), a Colorado corporation and wholly-owned subsidiary of the Company (the “Reverse Takeover”). The Reverse Takeover was completed by way of a “three-cornered” amalgamation pursuant to the provisions of the Business Corporations Act (Ontario) whereby MedWorxs amalgamated with Merger Sub to form an amalgamated corporation and a wholly owned subsidiary of Kovo. Effective May 31, 2021, Kovo completed a Common Share consolidation on the basis of 1:1 old common share into one new Common Share of Kovo (a “Common Share”). All shares and per share amounts have been restated to reflect the share consolidation retrospectively.

Going Concern

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. These condensed consolidated interim financial statements do not reflect the adjustments to carrying values of assets and liabilities that would be necessary should the going concern assumption prove to be inappropriate, and these adjustments could be material.

During the nine months ended September 30, 2021, the Company generated a loss from operations of \$1,232 (September 30, 2020 – loss of \$634), and a net loss of \$1,368 (September 30, 2020 – net loss of \$730). As at September 30, 2021, the Company had a working capital deficit of \$1,182 (December 31, 2020 - \$1,435) and long-term debts of \$2,506 (December 31, 2020 - \$1,915) resulting in a net liability position of \$150 (December 31, 2020 – net-liability of \$614). Of the working capital, \$600 in loans is not required to be paid in the next 12 months due to the royalty agreement in place with the underwriter which has an open-ended payment term with no principal payment requirements, therefore the adjusted working capital calculation is a deficit of approximately \$582. These factors may form a material uncertainty that may raise significant doubt regarding the Company’s ability to continue as a going concern. Management intends on financing its future development activities and operations from the sale of equity and debt securities. The Company’s ability to continue as a going concern is dependent upon the Company’s ability to raise sufficient financing or generate sufficient future cash flows from profitable business activities.

2. BASIS OF PRESENTATION, MEASUREMENT AND CONSOLIDATION

(a) Statement of Compliance

These condensed consolidated interim financial statements are unaudited. These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements should be read in conjunction with the December 31, 2020 annual consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB.

The preparation of these condensed consolidated interim financial statements is based on accounting principles and practices consistent with those used in the preparation of the December 31, 2020 annual consolidated financial statements, except as disclosed below.

These condensed consolidated interim financial statements were approved by the board of directors of the Company for issue on November 15, 2021.

(b) Basis of Measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments which are measured at fair value, as explained in the accounting policies set out below.

(c) Basis of Consolidation

The condensed consolidated interim financial statements include: the accounts of Kovo; Kovo’s wholly owned subsidiaries, MedWorxs Inc. and Kovo Acquisitions LLC; MedWorxs Inc.’s wholly owned subsidiaries, RPM Billing LLC and Axon Veterinarian Care Technologies; and Kovo Acquisitions LLC’s operating business, Midwest Medical Billing Services. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, are exposed to, or have rights to, variable returns from involvement with the entity and have the ability to affect those returns through power over the entity. The subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. Profit and loss or other comprehensive income (loss) of subsidiaries acquired during the period are recognized from the date of acquisition or effective date of disposal, as applicable. Significant intercompany accounts and transactions are eliminated on consolidation.

(d) Segments

The condensed consolidated interim financial statements include one operating segment for the overall business. The operating results are regularly reviewed by the chief operating decision makers to determine decisions about resources and how they will be allocated to determine performance. At this time, management does not make decisions by revenue stream, but rather as an organization as a whole on a consolidated basis. Therefore, the condensed consolidated interim financial statements are presented as one operating segment.

(e) Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in US dollars (“USD”), which is also the functional currency of the Company.

The functional currency of the Company is determined to be the US dollar by management based on consideration of the currency and economic factors that primarily influence the Company’s revenues and the costs of its business operation while the functional currency of Axon is determined to be Canadian dollars. Axon is currently inactive.

2. BASIS OF PRESENTATION, MEASUREMENT AND CONSOLIDATION (continued)

(e) Functional and Presentation Currency (continued)

Foreign currency transactions that are in a different currency other than the US dollar are recorded at the exchange rate as at the date of the transaction. At the end of each statement of financial position date, any foreign currency based monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities in foreign currencies other than the functional currency are translated using the historical rate. Gains and losses on transactions are included in the condensed consolidated statements of operations and comprehensive loss.

(f) Use of Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported revenues and expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation and judgment uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

(i) Estimates

Fair value measurement of non-interest-bearing debt

The Company measures on initial recognition the fair value of certain financial liabilities that do not have a defined interest rate, the Company has estimated the fair market value using a comparative interest rate for similar liabilities and a discounted cash flow to determine a reasonable present value. Additional details on debt are disclosed in Note 9.

Fair value measurement of stock options and warrants

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for stock options and warrants requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the stock options and warrants, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for stock options and warrants are disclosed in Note 12.

Going concern

The assumption that the Company will be able to continue as a going concern is subject to estimates and judgement by management including the Company's short and long-term operating budget, expected profitability, investing and financing activities, and management's strategic planning.

Useful life of capitalized software costs

The Company assumed that its software capital asset had a useful life of three years. The Company based this value on the average cycle of software upgrades and changes made to its software platform utilized by its clients. The useful life was estimated based on management's numerous years in the software business line and typical trend of software upgrades required.

2. BASIS OF PRESENTATION, MEASUREMENT AND CONSOLIDATION (continued)

(f) Use of Estimates and Judgments (continued)

Goodwill and Intangible assets

Management is required to use judgement in determining the economic useful lives of identifiable intangible assets. Judgement is also required to determine the frequency with which these assets are to be tested for impairment. The Company uses judgment in determining the grouping of assets to identify its Cash Generating Units (“CGUs”) for purposes of testing for impairment of intangible assets and goodwill. In testing for impairment, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination. In testing for impairment of intangibles with indefinite lives, these assets are allocated to the CGUs to which they relate. The Company’s intangible assets consist of customer relationships and goodwill, all of which arose from business combinations.

(ii) Accounting judgements

Income taxes

The Company recognizes the tax benefit from an uncertain tax position only if it is probable that the tax position will be sustained based on its technical merits. The Company measures and records the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company’s estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute limitations for examination expires, or when additional information becomes available. The Company’s liability for unrecognized tax benefits requires the use of assumptions and significant judgment to estimate the exposures associated with our various filing positions.

Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect our effective income tax rate and income tax provision.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially such differences will affect the tax provisions in the period in which such determination is made.

Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect our effective income tax rate and income tax provision.

Leases

Leases requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If the rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leases assets is not available. The Company determines the incremental borrowing rate as the interest rate of the Company would pay to borrow over a similar economic environment. The weighted average rate applied was 15% per annum. Leases requires lessees to estimate the lease term. In determining the period which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

2. BASIS OF PRESENTATION, MEASUREMENT AND CONSOLIDATION (continued)

(f) Use of Estimates and Judgments (continued)

Reverse Takeover

The Company determined that the amalgamation transaction between Kovo, MedWorxs and Merger Sub was a reverse takeover. MedWorxs was deemed to be the accounting acquirer in the transaction as its shareholders obtained control as a result of the amalgamation. As such, historical and comparative figures presented in these condensed consolidated interim financial statements represent those of MedWorxs and its subsidiaries.

The Company determined that Kovo did not have an integrated set of activities containing the elements of (a) inputs or (b) processes applied to inputs. Therefore, Kovo did not meet the definition of a business in accordance with IFRS. As such, the Company measured the goods received, and the corresponding increase in equity, directly, at the fair value of goods received. As MedWorxs is deemed to be the accounting acquirer and the legal acquiree in the Reverse Takeover, the assets and liabilities of MedWorxs have been accounted for at cost, and Kovo's assets and liabilities have been accounted for at fair value as of the date of acquisition.

In the accounting for the reverse takeover, the Reverse Takeover consideration was determined by reference to the fair value of equity the legal subsidiary, being MedWorxs, would have issued to the legal parent entity, being Kovo, for the shareholders of Kovo to obtain the same percentage ownership interest in the combined entity. The fair value of the issued equity was determined based on the most reliable and observable fair value measures being the value of shares and warrants the legal parent had outstanding at the time of the Reverse Takeover (1 common share).

Additional discussion on the assumptions and models used for accounting for the reverse takeover and estimating fair value of the consideration transferred and identifiable assets acquired and liabilities assumed are disclosed in Note 5.

Consolidation

The Company uses judgment in determining the entities that it controls and consolidates accordingly. An entity is controlled when the Company has power over an entity, exposure or rights to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its return from the entity. The Company has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, which are the activities that significantly affect the investee's returns. Since power comes from rights, power can result from contractual arrangements. However, certain contractual arrangements contain rights that are designed to protect the Company's interest, without giving it power over the entity.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are described below:

(a) Cash

Cash in the condensed consolidated statements of financial position are comprised of cash held in bank accounts.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Capitalized Software Costs

Software development costs, consisting primarily of employee salaries and benefits and certain third-party costs, incurred in the development of new software solutions and enhancements to existing software solutions for external sale are expensed as incurred, and reported as salaries and benefits in the condensed consolidated statements of operations and comprehensive loss, until technological feasibility has been established. After technological feasibility is established, any additional software development costs are capitalized.

Amortization of capitalized software is recorded on a straight-line basis over the estimated economic life of the related product, which is typically three years. The total of capitalized software costs incurred in the development of products for external sale are reported as capitalized software costs within the condensed consolidated statements of financial position, net of amortization and impairment.

The Company also incur costs related to the development of software applications for the development of software-as-a-service ("SaaS") based solutions sold under the Practice Management Software revenue stream. The development costs of the SaaS-based solutions are considered internal-use for accounting purposes.

The capitalized development costs are stated at cost and amortized on a straight-line basis over the estimated useful lives of the assets, which is typically three years. Application development stage costs generally include costs associated with the software configuration, coding, installation and testing. Costs related to the preliminary project stage and post-implementation activities are expensed as incurred. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized, whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. Capitalized software costs for the development of SaaS-based solutions are reported as capitalized software costs under intangible assets within the condensed consolidated statements of financial position.

The Company periodically reassess the estimated economic life and the recoverability of the capitalized software costs. If the Company determines that the capitalized amounts are not recoverable based on the expected net cash flows to be generated from sales of the applicable software solutions, the amount by which the unamortized capitalized costs exceed the net realizable value is written off as a charge to earnings. The net realizable value is estimated as the expected future gross revenues from that product reduced by the estimated future costs of completing and disposing of that product, including the costs of performing maintenance and client support required to satisfy our responsibility at the time of sale. In addition to the assessment of net realizable value, the Company review and adjust the remaining estimated lives of our capitalized software costs, if necessary. The Company also perform a periodic review of the software solutions and dispose of fully amortized capitalized software costs after such products are determined to be no longer used by the clients.

(b) Intangible Assets

Intangible assets acquired through asset acquisitions or business combinations are initially recognized at fair value. Intangible assets with indefinite lives are subsequently measured at cost less impairment, if any while intangible assets with definite lives are subsequently measured at cost less accumulated amortization and impairment, if any. The intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives unless such lives are deemed indefinite. The Company evaluates the reasonableness of the estimated useful lives of these intangible assets on an annual basis. The Company reviews intangible assets with indefinite lives annually for impairment but impairment may be reviewed earlier if circumstances indicate that the carrying amount may not be recoverable while intangible assets with definite lives are assessed for impairment when some or all of the internal or external indicators of impairment are met.

The estimated useful lives of intangible assets are as follows:

Customer relationships	15 years
Intellectual property	5 years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Goodwill represents the excess for the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the CGU or CGUs to which it relates. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the group at which management monitors goodwill. The Company allocates goodwill to one or more CGUs for the purpose of impairment testing.

The determination of these CGUs is based on management's judgment in regard to several factors such as shared infrastructure, similarity in service offering, and exposure to market risk and materiality. The Company has determined two CGUs, MedWorx software services and RCM services and has allocated goodwill at the segment level as a result of the synergies created.

Goodwill is not subject to amortization and is tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill might be impaired. In order to determine if the value of goodwill has been impaired, the CGU to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill. Impairment is determined for goodwill by assessing if the carrying value of CGU, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGUs. Any goodwill impairment is recorded in the condensed consolidated statements of operations and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

(d) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(e) Leases

The Company recognizes a Right-of-Use asset and a lease liability at the lease commencement date. The Right-of-Use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses. The cost of the right-of-use asset consists of the lease liability, any lease payments made, less any lease incentives and any direct costs incurred by the lessee. The lease liability includes the net present value of the following lease payments: i) fixed payments less any lease incentive receivables; ii) variable lease payments that are based on an index or rate; iii) expected payments by the lessee under residual value guarantees; iv) exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and v) payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest costs on the lease liability and decreased by the lease payment made.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue Recognition

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers includes a five-step, principles-based recognition and measurement approach as well as requirements for accounting for contract costs and enhanced quantitative and qualitative disclosure requirements.

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company had three main revenue streams: Ambulatory services, Inpatient system services and Software services (“Practice Management” Software), and RCM billing services, detailed as follows:

(i) RCM Billing Services

RCM is an outsourced service offered to clinics and hospitals for the management of the complex coding and filing required by medical practitioners to receive payment for their work from insurance companies and governmental agencies through programs such as US Medicare. RCM is billed monthly to customers as a fee-based service based on utilization. The service balances the importance of establishing relationships with payers (such as insurance carriers and the US federal government) and acting as a liaison between carrier or government agency, physician office or facility, and the patient.

The RCM products and services are designed to be customizable to an individual practice or facility’s needs. The focus is on customizing the offering to the customer specific need, proven optimize service quality and customer profitability.

The Contracts with Standard terms and conditions are executed with customers prior to the initiation of RCM services. The RCM billing service provided is the main performance obligation provided to a RCM customer. The total transaction price for service contracts is allocated based on their stand-alone selling prices as negotiated with each customer. The revenue is recognized over time as performance obligations are satisfied.

(ii) Ambulatory Services

Systems which are designed for the specific use or function of an Ambulatory clinic. Ambulatory care is any same-day medical procedure performed in an outpatient setting. This refers to any medical service that is not performed in a hospital or facility that requires admission. Specialties which are considered Ambulatory are Internal Medicine, Family Practice, Dermatology, Obstetrics & Gynecology.

Standard terms and conditions contracts are executed with customers prior to the initiation of Ambulatory services. The Ambulatory system provided is the main performance obligation provided to an Ambulatory customer. The total transaction price for service contracts is allocated based on their stand-alone selling prices as negotiated with each customer. The revenue is recognized over time as performance obligations are satisfied.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue Recognition (continued)

(iii) Inpatient and Software Services - Practice Management (“PM”) Software

PM software provides clinics and medical practitioners with a comprehensive platform to manage all aspects of their practice. PM is offered as a Software as a Service (SaaS) product billed monthly under annual to multi year contracts. Components of a practice management system include management of insurer and government relationships, patient appointment scheduling, billing automation software, Electronic Data Interchange (EDI), capture of patient demographics and report generation. PM gives the clients the detail and visibility needed to effectively manage the financial and business side of the medical practice.

Standard terms and conditions contracts are executed with customers prior to the initiation of PM Software services. The PM Software provided is the main performance obligation provided to a PM Software customer. The total transaction price for each contract is allocated based on their stand-alone selling prices as negotiated with each customer. Revenue from SaaS subscriptions and any other service is recognized over the term of the subscription.

(g) Share Capital

Financial instruments issued by the Company are classified as share capital only to the extent that they do not meet the definition of a financial liability or financial asset. The Company’s common shares are classified as equity instruments. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

For unit offerings, the proceeds from the issuance of units are allocated between common shares and share purchase warrants using the residual method, allocating fair value to the common shares and then share purchase warrants.

(h) Share Based Payments

Share-based payment transactions

Share-based compensation to employees is measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based compensation to non-employees is measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves.

The fair value of options and warrants is determined using the Black–Scholes pricing model which incorporates all market vesting conditions on grant date. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. When vested options are forfeited or are not exercised at the expiry date, the amount previously recognized in share-based compensation is transferred to deficiency.

The fair value of equity-settled Restricted Share Unit (“RSU”) is measured at the grant date based on the market value of the Company’s common shares on that date, and each tranche is recognized using the graded vesting method over the period during which the RSU vest. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of RSUs that are expected to vest.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Earnings (loss) Per Share

Basic income (loss) per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(j) Standards, amendments, and interpretations issued but not yet adopted

The IASB has issued several new standards and amendments that will be effective on various dates. The listing below is of standards, interpretation and amendments issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The impact on the Company is currently being assessed.

Amendment to IAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current: In January 2020, the IASB issued amendments to paragraphs 69-76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists.

The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. Management is currently assessing the impact of this amendment.

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative (G&A) costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not expected to have a material impact on the Company.

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The IASB also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the IASB decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

4. CAPITAL MANAGEMENT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital Management

The Company's objectives when managing its capital are:

- To maintain a flexible capital structure that optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
- To maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- To safeguard the Company's ability to obtain financing should the need arise; and
- To maintain financial flexibility in order to have access to capital in the event of future capital acquisitions.

The Company is exposed to various financial instrument risks and continuously assesses the impact and likelihood of this exposure. These risks include credit risk, liquidity risk, capital management and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, and in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital to consist of total equity. The Company is not subject to externally imposed capital requirements.

Financial Risks

a) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and accounts receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure. See Note 6 for details on accounts receivable.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and remain solvent. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

To date, the Company has generated operating losses (Note 1) and has relied on equity to fund its operations (Note 12) and acquisitions and will need to continue to secure additional funding for operations (Note 9). Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that financing will be on terms advantageous to the Company.

c) Interest risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has debt instruments subject to variable interest rates (Note 9). If the interest rates were to increase substantially that would have a negative impact on the Company debt instruments. If the interest rates were to fluctuate by 1%, based on a weighted average cost of interest, the impact on interest expense incurred by the Company for the nine months ended September 30, 2021 would be \$28 (September 30, 2020- \$28).

The Company monitors the American prime interest rate carefully and ensures any significant increases would be mitigated through sufficient cash on hand, raising additional capital or renegotiating terms with the debt underwriter.

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4. CAPITAL MANAGEMENT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

d) Currency risk

Currency risk is the risk that the fair value or future cash flows of the Company's financial instrument that are denominated in a currency that is not the Company's functional currency will fluctuate due to the change in foreign exchange rate. The Company is exposed to the currency exchange rate risk on the following balances held in Canadian dollars:

	September 30, 2021
	\$
Cash	61
Other receivables	29
Accounts payable and accrued liabilities	276
Long term debt	461
Contingent Consideration	472

The Company does not use derivative financial instruments to mitigate its exposure to currency risk. Management, however, mitigates currency risk by regular monitoring, transacting in stable currencies, matching the foreign currency receivables and payables on a broad basis and minimizing the net exposure in any foreign currency at any point of time.

A 100 basis points change in the value of the Canadian currency will result in the increase/decrease in the Company's net (loss) of \$11 (December 31, 2020 - \$1).

5. ACQUISITIONS

Acquisition of Midwest Medical Billing

On July 1, 2021, Kovo completed the acquisition of net assets of Midwest Medical Billing, Service Inc ("Midwest" or the "Seller"). Under the terms of the acquisition, Kovo: (i) paid to the Seller cash consideration of USD\$50,000; and (ii) issued 1,111,881 common shares of the Company (the "Consideration Shares") at a price per Consideration Share of USD\$1.01 (approximately CAD\$1.25 per Consideration Share). In addition, the Company granted 500,000 incentive stock options to the seller of Midwest as part of the new employment agreement post acquisition, which are exercisable at CAD\$0.77 per share for a period of five years — and will be subject to a four month hold under applicable securities laws.

In accordance with the measurement period permitted under IFRS 3 - Business Combinations, the fair value of the assets acquired and liabilities assumed have been determined on a provisional basis on the assumptions noted. The Company has determined the fair values of assets and liabilities acquired and identifying any other intangible assets that exist at the date of acquisition. The Consideration Shares were valued at their fair value, CAD\$0.86 per share, as of the first business day preceding the acquisition. As a result, the enterprise value was determined to be \$774 on the date of acquisition. Goodwill is attributable to the customer list, expected synergies, and other intangible assets that the Company has identified.

	Total
Shares issued at closing	\$ 774
Enterprise value	\$ 774

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5. ACQUISITIONS (continued)

Acquisition of Midwest Medical Billing (continued)

Allocation of purchase price	Total
Net current assets	\$ 12
Right of use assets	171
Working capital allowance	(50)
Lease liability	(171)
Liabilities assumed	(81)
Customer Relationships	820
Goodwill	73
Total allocation of purchase price	\$ 774

Midwest's results are consolidated in the Company's financial results effective July 1, 2021. For the three and nine months ended September 30, 2021, Midwest contributed \$140 to the Company's consolidated operating income and to the total comprehensive income.

	For the period ended September 30, 2021
	\$
Revenue	446
Total comprehensive income for the period	140

In addition to the acquisition transaction, the Company granted 500,000 employee stock options to the Seller, which are exercisable at CAD\$0.77 per share for a period of five years — and will be subject to a four month hold under applicable securities laws and a three-year vesting period as part of the Company's Employee Stock Option Plan. For the three and nine months ended September 30, 2021, \$17 has been accounted for as part of share-based compensation. Please refer to note 12 for further details.

The following table provides summarized financial information for Midwest's operations from January 1, 2021 to September 30, 2021:

	For the period ended September 30, 2021
	\$
Revenue	1,117
Total comprehensive income for the period	179

The accounting is not yet complete, and the amounts assigned to assets acquired and liabilities assumed are provisional. Therefore, this may result in future adjustments to the provisional amounts as information is obtained about facts and circumstances that existed at the acquisition date.

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5. ACQUISITIONS (continued)

Reverse Takeover

As part of the Reverse Takeover transaction, effective May 31, 2021, Kovo completed a Common Share consolidation on the basis of 1:1 old common share into one new Common Share of Kovo.

In the Reverse Takeover, although legally Kovo is the parent of MedWorxs, MedWorxs is deemed to be the accounting acquirer and Kovo is deemed to be the acquiree for accounting purposes. Upon completion of the Reverse Takeover, the former shareholders of MedWorxs became the controlling shareholders of Kovo. As MedWorxs is deemed to be the accounting acquirer and the legal acquiree in the Reverse Takeover, the assets and liabilities of MedWorxs have been accounted for at cost, and Kovo's assets and liabilities have been accounted for at fair value on acquisition at May 31, 2021. Since Kovo's operations did not constitute a business prior to May 31, 2021, the transaction has been accounted for as an asset acquisition that is not a business combination. Therefore, Kovo's share capital, reserves and deficit at the time of the Reverse Takeover have been eliminated and the Reverse Takeover costs have been expensed. The capital structure recognized in the consolidated balance sheet is that of the Company, but the dollar amount of the issued share capital prior to the Reverse Takeover will be that of MedWorxs, including the value of shares issued prior to the Reverse Takeover.

In the accounting for the reverse takeover, the Reverse Takeover consideration was determined by reference to the fair value of equity the legal subsidiary, being MedWorxs, would have issued to the legal parent entity, being Kovo, for the shareholders of Kovo to obtain the same percentage ownership interest in the combined entity. The fair value of the issued equity was determined based on the most reliable and observable fair value measures being the value of shares and warrants the legal parent had outstanding at the time of the Reverse Takeover (1 common share).

The accounting is not yet complete, and the amounts assigned to assets acquired and liabilities assumed are provisional. Therefore, this may result in future adjustments to the provisional amounts as information is obtained about facts and circumstances that existed at the acquisition date.

The excess of the fair value of the Reverse Takeover consideration to Kovo over the fair value of the assets and liabilities of Kovo acquired by MedWorxs at May 31, 2021 is as follows:

Fair value of consideration given up:	
1 common share at \$0.50/share	\$ -
Fair value of consideration acquired:	
Cash	202
Restricted cash	634
Amounts receivable	70
Fair value of liabilities assumed:	
Amounts payable and accrued liabilities	(158)
Subscriptions in trust	(634)
Debt	(470)
Excess of Reverse Takeover transaction consideration over net assets acquired	356

The \$356 excess of the Reverse Takeover consideration over the net assets acquired and the Reverse Takeover costs have been expensed in the condensed consolidated statement of operations and comprehensive loss during the nine months ended September 30, 2021.

5. ACQUISITIONS (continued)

For accounting purposes, the transaction does not constitute a business combination as Kovo does not meet the definition of a business under IFRS 3, *Business Combinations*. As a result, the transaction is accounted for as a capital transaction with Kovo being identified as the acquirer and the equity consideration being measured at fair value, in accordance with IFRS 2, *Share-based Payment*, wherein MedWorxs is deemed to have issued shares, warrants and options in exchange for the net assets of the Company together with its listing status. The accounting for this transaction resulted in the following:

- i. The resulting interim condensed consolidated financial statements are presented as a continuation of MedWorxs Inc., and comparative figures presented in the interim condensed consolidated financial statements are those of MedWorxs Inc.
- ii. Since MedWorxs is deemed to be the continuing entity for accounting purposes, its assets and liabilities are included in the condensed consolidated interim financial statements at their historical carrying values.
- iii. As part of the completion of the Reverse Takeover to facilitate the listing of Kovo on the TSX-V (Ticker: KOVO), the original shareholders of MedWorxs retained 31,889,290 common shares of the Company and 2,517,980 options, and 1,908,630 warrants.

6. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

The Company has one customer that represents 11% of total sales for the nine months ended September 30, 2021. As at September 30, 2021, one customer represents 85% of the accounts receivable balance which was received prior to the release of these financial statements. The Company evaluates credit losses on a regular basis based on the aging and collectability of the receivables. As at September 30, 2021, an allowance for doubtful accounts of \$nil (December 31, 2020 - \$nil) was recorded.

Other receivables and prepaid expenses include a promissory note of \$238 (December 31, 2020 - \$nil) for exercised options due from a director of the Company, \$92 (December 31, 2020 - \$nil) in prepaid insurance, \$65 in prepaid expenses, \$17 in \$1 unsecured promissory notes, recoverable from 17 employees in relation to the options exercised, receivable, and \$32 in input tax credits.

The promissory note was entered on January 21, 2021 with an original balance of \$261, is non-interest bearing, secured against the units owned by the holder, payable in 11 monthly installments of \$3, commencing March 15, 2021, with the balance payable on March 15, 2022.

The unsecured promissory notes were entered with employees on March 30, 2021, bearing interest of 0.12% per annum, and payable by March 30, 2022. The full amount will be forgiven if the respective employees are employed by the Company as at the repayment date.

Notes receivable as at December 31, 2020 of \$13 were repaid in full as at September 30, 2021.

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7. RIGHT OF USE ASSETS

	ROU Assets
Cost	
Balances as at December 31, 2020	\$ 380
Additions	171
Balances as at September 30, 2021	\$ 551
Accumulated Depreciation	
Balances as at December 31, 2020	\$ (248)
Amortization	(57)
Balances as at September 30, 2021	\$ (305)
Net Book Values as at December 31, 2020	\$ 132
Net Book Values as at September 30, 2021	\$ 246

The right-of-use (“ROU”) assets represent an operating lease for an office lease which is utilized by the Company and an acquired operating lease which is utilized by the Company as part of an acquisition during the year (see Note 10).

8. INTANGIBLE ASSETS

	Intangible Assets			
	Intellectual Property	Customer Lists	Software	Total
Cost				
Balances as at Dec 31, 2020	\$ 1,250	\$ 374	\$ 532	\$ 2,156
Additions	-	820	122	942
Balances as at September 30, 2021	\$ 1,250	\$ 1,194	\$ 654	\$ 3,098
Accumulated Amortization				
Balances as at Dec 31, 2020	\$ (208)	\$ (21)	\$ (307)	\$ (536)
Amortization	(188)	(33)	(106)	(327)
Balances as at September 30, 2021	\$ (396)	\$ (54)	\$ (413)	\$ (863)
Net carrying amount as at December 31, 2020	\$ 1,042	\$ 353	\$ 225	\$ 1,620
Net carrying amount as at September 30, 2021	\$ 854	\$ 1,140	\$ 241	\$ 2,235

	Intangible Assets			
	Intellectual Property	Customer Lists	Software	Total
Cost				
Balances as at Dec 31, 2019	\$ -	\$ -	\$ 367	\$ 367
Additions	1,250	374	165	1,789
Balances as at Dec 31, 2020	\$ 1,250	\$ 374	\$ 532	\$ 2,156
Accumulated Depreciation				
Balances as at Dec 31, 2019	\$ -	\$ -	\$ (178)	\$ (178)
Amortization	(208)	(21)	(129)	(358)
Balances as at December 31, 2020	\$ (208)	\$ (21)	\$ (307)	\$ (536)
Net carrying amount as at December 31, 2019	\$ -	\$ -	\$ 189	\$ 189
Net carrying amount as at December 31, 2020	\$ 1,042	\$ 353	\$ 225	\$ 1,620

9. DEBTS

Foundation Line of Credit

On June 20, 2017, the Company had an unsecured business line of credit agreement with Foundation Group LLC up to \$75. The interest rate on the line of credit was 11.19%. The Company had the option to repay the balance at any time without penalty, however there are no set repayment terms. As of September 30, 2021, the Company has an outstanding balance of \$1 (December 31, 2020 - \$35) included in short term debts.

Funding Circle Loan

On September 21, 2017, the Company obtained an unsecured bullet loan for \$100 from FC Marketplace, LLC (“Funding Circle”) with a maturity date of September 30, 2022 bearing an interest rate 15.82%. In September 2018, the loan limit was increased to \$200,000, and the maturity date was extended to September 13, 2023. As of September 30, 2021, the outstanding balance was \$99 (December 31, 2020 - \$129), of which \$53 is included in long term debts.

Tech-Time Debts

On June 2, 2015, the Company acquired the assets of Tech-Time, a Montana corporation, and their *STAT!* software which is used for managing practice management software. At the time the Company issued a secured promissory note for \$200 at 6% interest with a 48-month payback period as follows: (i) \$100 plus accumulated interest due 24 months after issuance, June 2, 2017 (ii) \$50 non-interest bearing due 36 months after issuance, June 2, 2018 (iii) \$50 non-interest bearing due 48 months after issuance, June 2, 2019. The promissory note was secured against the assets of Tech-Time. The purchase of the assets was expensed in 2015. The Company has repaid the secured promissory note as of December 31, 2020.

In addition to the secured promissory note, the Company committed to a non-interest-bearing consulting contract of \$778 starting June 2, 2015 which would pay the president of Tech-Time \$8 per month until the contract was fulfilled. For accounting purposes, the consulting contract has been treated as a contractual obligation and financial instrument. The Company has discounted the contract as of September 30, 2021 using an imputed interest rate similar to a Small Business Administration (“SBA”) loan, which is the prime rate plus 2.75%, which as of September 30, 2021 was 6% (December 31, 2020: 6%) and assumes a maturity of April 30, 2023. Based on these discount factors, the fair value calculated as at September 30, 2021 was \$286 (December 31, 2020 - \$333), of which \$81 is included in short term debts.

Grenville Royalty Loan

On April 13, 2017, the Company entered into a \$300 unsecured royalty loan agreement with Grenville Strategic Royalty Corp (“Grenville”). As of April 13, 2017 until December 31, 2018, the Company shall pay Grenville \$6.25 per month as interest expense only. As of January 1, 2019, the Company shall pay Grenville the higher of \$6.25 or 1.125% of monthly revenue greater than \$4,260. If the Company would like to buyout the debt, it would be subject to two times the principal received, or \$600. The outstanding balance as of September 30, 2021 was \$600 (December 31, 2020 - \$600) included in short term debts. The Company paid \$18 and \$56 in interest expense during the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020 - \$19 and \$56).

9. DEBTS (continued)

Small Business Administration Loans

On June 3, 2015, the Company entered into a \$500 secured long-term loan with a maturity date of June 2, 2025 bearing an interest rate of the prime interest rate of similar loans plus 2.75% and adjusted on a quarterly basis. The loan was secured against the assets of the Company. As of September 30, 2021, the interest rate applicable was 6% (December 31, 2020: 6%). As at September 30, 2021 the balance was \$231 (December 31, 2020 - \$272), \$176 of which is included in long term debts.

On January 18, 2018, the Company entered into a \$325 secured long-term loan with a maturity date of January 17, 2028 bearing an interest rate of the prime interest rate of similar loans plus 2.75% and adjusted on a quarterly basis. The loan was secured against the assets of the Company. As of September 30, 2021, the interest rate applicable was 6% (December 31, 2020: 6%) and the outstanding balance was \$226 (December 31, 2020 - \$257), \$196 of which is included in long term debts.

On December 27, 2018, the Company entered into a \$70 secured long-term loan with a maturity date of December 26, 2028 bearing an interest rate of the prime interest rate of similar loans plus 2.75% and adjusted on a quarterly basis. The loan was secured against the assets of the Company. As of September 30, 2021, the interest rate applicable was 6% (December 31, 2020: 6%) and the outstanding balance was \$55 (December 31, 2020 - \$65), \$48 of which is included in long term debts.

PayPal Working Capital Loan

On September 16, 2019, the Company obtained an unsecured working capital loan of \$25 from WebBank or also known as PayPal Working Capital with a minimum payment required every 90 days of \$3. The loan had an approximate fixed interest rate of 7.6%. The loan was repaid in April 2020.

On February 2, 2020, the Company obtained a secured working capital loan of \$100 from WebBank or also known as PayPal Working Capital with a minimum payment required every 90 days of \$6. The loan has an approximate interest rate of 25.4% (December 31, 2020: 25.4%). The loan is due within twelve months of issuance. As of September 30, 2021, the balance was \$89 (December 31, 2020 - \$105) included in short term debts.

Axon Contingent Royalty Loan Liability

On February 21, 2020 the Company purchased the assets of Axon VCT. The Company assumed a contingent royalty loan liability up to CDN\$2,400 or USD\$1,800, if revenue targets are met, derived directly from the Axon's assets purchased. The balance is non-interest bearing and secured against the assets of Axon VCT with a net book value of \$854 (Note 8) that were purchased by the Company. The payments are due quarterly, but only if certain criteria are met. The contingent consideration was fair valued at a discount rate of 24.1% and expected to be paid over a 10-year period and is non-interest bearing. The provisional carrying value for the long-term liability is approximately \$434 upon acquisition. This estimated amount is subject to adjustment. As of September 30, 2021, the balance was \$472 (December 31, 2020 - \$434) included in non-current liabilities as contingent consideration. The implied interest as of the three and nine months ended September 30, 2021 was \$15 and \$20 respectively (three and nine months ended September 30, 2020 - \$nil).

Paycheck Protection Program

On April 7, 2020, the Company entered into a promissory note (the "PPP Loan") evidencing an unsecured loan in the amount of \$402 made to the Company under the Payment Protection Plan ("PPP"). The Company received the funds on April 15, 2020. The PPP is a liquidity facility program established by the U.S. government as part of the CARES Act in response to the negative economic impact of the COVID-19 outbreak. The PPP Loan has a two-year term and bears interest at a rate of 1.0% per annum. The interest is accrued and the full balance, including interest, will be due on the two year anniversary from the date of receipt.

9. DEBTS (continued)

The PPP Loan is a 100% forgivable loan to the extent proceeds are used to cover qualified documented payroll, mortgage interest, rent, and utility costs over a 24-week measurement period (as amended) following loan funding. For the loan to be forgiven, the Company is required to formally apply for forgiveness, and potentially, required to pass an audit that it met the eligibility qualifications of the loan. Within 150 days from the application, the Company will be notified whether or not the loan is forgiven.

The loan forgiveness amount will be reduced for any EIDL advance that the Company receives. The amount of loan forgiveness will be further reduced if the borrower terminates employees or reduces salaries during the eight-week period. The Company recorded the proceeds of the PPP Loan of \$402 as debt and will derecognize the liability when the loan is paid off or it believes forgiveness is reasonably certain. Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease. Accordingly, the loan is recorded to debt and the forgiveness recognized once all conditions are met.

On March 1, 2021 the Company received an additional \$600 in funding as part of the second tranche of the PPP program. The funds are an unsecured promissory note owed by the Company to the U.S. government as part of the CARES Act in response to COVID-19. The PPP Loan has a two-year term and bears interest at a rate of 1.0% per annum. The interest is accrued and the full balance, including interest, will be due on the two-year anniversary from the date of receipt. The PPP Loan is a 100% forgivable loan to the extent proceeds are used to cover qualified documented payroll, mortgage interest, rent, and utility costs. For the loan to be forgiven, the Company is required to formally apply for forgiveness, and potentially, required to pass an audit that it met the eligibility qualifications of the loan. Within 150 days from the application, the Company will be notified whether or not the loan is forgiven.

On May 28, 2021, the Company received notification from the Small Business Association that the Company's Forgiveness Application of the PPP Loan and accrued interest, totaling \$406, was approved in full, and the Company had no further obligations related to the PPP Loan. Accordingly, the Company recorded a gain on the forgiveness of the PPP Loan within Other Income.

As of September 30, 2021, the PPP Loan of \$604 (December 31, 2020 - \$402) has been classified as long term on the balance sheet.

EIDL loan

On June 8, 2020, the Company received an advance in the amount of \$155 from the U.S. Small Business Administration ("SBA") under the Economic Injury Disaster Loan ("EIDL") program administered by the SBA, which program was expanded pursuant to the CARES Act. EIDL is designed to provide economic relief to businesses that are currently experiencing a temporary loss of revenue. EIDL proceeds can be used to cover a wide array of working capital and normal operating expenses, such as continuation to health care benefits, rent, utilities, and fixed debt payments. Such an advance amount will reduce the Company's PPP loan forgiveness amount described above. The EIDL loan bears interest at a rate of 3.75% per annum and interest is accrued for the first year. Commencing one year after the advance date, the loan has a 30-year repayment term. As of September 30, 2021, the balance was \$154 (December 31, 2020 - \$153), \$151 of which was included in long term debts.

Hingwala Convertible Debt

As part of the Reverse Takeover, an unsecured convertible debt of \$260, or CAD\$300 was assumed on May 31, 2021, maturing on January 18, 2023, with interest of 25% per annum payable quarterly. The debt is convertible at USD\$1.00 per common share at the discretion of the debtholder, thus resulting in a foreign exchange variability embedded at conversion. In accordance with IFRS, a contract to issue a variable number of equity shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the condensed interim consolidated statements of operations at each period-end. The derivative liability

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9. DEBTS (continued)

will ultimately be converted into the Company's equity when the convertible debt is converted or will be relinquished on the repayment of the convertible debt and will not result in the outlay of any additional cash by the Company.

The Company used Black-Scholes option-pricing model to estimate the fair value of the derivative liability at the reporting dates. This is a level 3 recurring fair value measurement. The key level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the convertible debt. The Company believes that a 1% difference in the inputs used for the fair value measurement would not cause a material difference to the fair value amount.

The following range of assumptions were used to value the convertible derivative liability upon initial recognition:

Volatility	102.64%
Risk-free interest rate	0.31%
Expected life (years)	1.636
Share price	CAD\$1.21 (USD \$1)
Exercise price	CAD\$1.21 (USD \$1)

A reconciliation of the beginning and ending balance of the Hingwala convertible debt and derivative liability from the time of acquisition and during the period ended September 30, 2021 is as follows:

	Convertible debt \$	Derivative liability \$
As at December 31, 2020	-	-
Fair value of convertible debt and derivative liability on assumption date	148	112
Interest accretion of convertible debt	17	-
Fair value change in derivative liability	-	(1)
Unrealized foreign exchange loss/(gain)	(9)	(6)
As at September 30, 2021	156	105

Hybrid Financial Debt

As part of the Reverse Takeover, an unsecured debt of \$210, or CDN\$254, was assumed on May 31, 2021, maturing on February 18, 2023, with interest of 25% per annum payable quarterly. Interest accrued for the three months ended September 30, 2021 totals \$13, or CDN \$16 (September 30, 2020 – \$nil). Interest accrued for the nine months ended September 30, 2021 totals \$17, or CDN \$21 (September 30, 2020 – \$nil). As of September 30, 2021, the Hybrid financial debt has been classified as long-term debt of \$199, or CDN \$254.

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10. LEASE LIABILITIES

The Company leases office space and a data center. The following table presents the lease obligations of the Company:

	September 30, 2021	December 31, 2020
Beginning balance	\$ 139	\$ 60
Additions	171	170
Payment of lease obligations	(70)	(114)
Interest expense on lease obligations	20	23
Total	\$ 260	\$ 139

The following table presents an analysis of the contractual undiscounted cash flows from lease obligations:

	September 30, 2021	December 31, 2020
Maturity analysis – contractual undiscounted cash flows		
Less than one year	\$ 142	\$ 74
One to five years	147	103
More than five years		
Total undiscounted lease obligations	\$ 289	\$ 177
Lease obligations	\$ 260	\$ 139
Current portion	\$ 119	\$ 44
Non-current portion	\$ 141	\$ 95

Leases greater than one year were capitalized as right of use assets (Note 7). As at September 30, 2021, the Company had two leases capitalized with lease terms greater than a year. In addition, a lease for the data center started on February 1, 2016 and ended on January 31, 2021. As of the date of these financials, the Company leases the facility on a month-to-month basis of \$1 per month. The Company also has a lease for office space ending on August 31, 2023 of \$1 per month that is deemed of low value, and therefore not subject to capitalization.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate. The weighted-average rate applied varied between 9% to 15% (December 31, 2020 – 15%).

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11. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the three and nine months ended September 30, 2021 and 2020 is comprised of the following:

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Professional expenses	\$ 284	\$ 46	\$ 450	\$ 294
Software & IT	52	35	157	87
Public company expenses	54	43	239	58
Office expenses	94	59	152	117
Deal-related expenses	108	-	108	-
Other G&A	5	45	80	184
General and administrative expenses	\$ 597	\$ 228	\$ 1,186	\$ 740

12. SHARE CAPITAL

Common Shares

The Company has authorized share capital of 38,000,000 common shares (December 31, 2020 – 38,000,000 common shares outstanding).

During the nine months ended September 30, 2021:

On January 22, 2021, warrant holders exercised their option to convert 1,280,000 common shares for a price of \$0.204 per share.

On January 28, 2021, warrant holders exercised their option to convert 200,000 common shares for a price of \$0.204 per share.

On January 29, 2021, warrant holders exercised their option to convert 60,000 common shares for a price of \$0.204 per share.

On February 3, 2021, warrant holders exercised their option to convert 100,000 common shares for a price of \$0.204 per share.

On March 30, 2021, employee stock option holders exercised their option to convert 34,314 common shares for a price of \$0.204 per share.

On March 30, 2021, employee stock option holders exercised their option to convert 8,000 common shares for a price of \$0.50 per share.

On March 31, 2021, employee stock option holders exercised their option to convert 14,706 common shares for a price of \$0.204 per share.

On March 31, 2021, employee stock option holders exercised their option to convert 6,000 common shares for a price of \$0.50 per share.

12. SHARE CAPITAL (continued)

On June 4, 2021, the Company completed a brokered private placement to issue 634,200 units for gross proceeds of \$634. Each unit comprised of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable at a fixed price of \$1.5 per one warrant for a period of two years from the date of issuance. The proceeds from issuance of units were allocated between common shares and warrants based on proportionate method. The proportionate fair value of the common shares was determined to be \$552 and the proportionate fair value of warrants was estimated to be \$64. The fair value of shares is based on the share price as of the issuance date with no warrants. The fair value of warrants was estimated using Black-Scholes valuation model. The issuance cost on the brokered private placement paid in cash amounted to \$18. In addition, the Company issued 16,530 brokers warrants which were fair valued at \$6 using Black-Scholes valuation model. These issuance costs were adjusted against share capital in the condensed consolidated interim statements of changes in shareholders' deficiency.

On July 1, 2021, Kovo completed the acquisition of the assets of Midwest Medical Billing, Service Inc. Under the terms of the acquisition, Kovo issued 1,111,881 common shares of the Company at a quoted price as at acquisition date of CAD\$0.86 per common share, or \$774. In addition, the Company granted 500,000 incentive stock options to the Seller, which are exercisable at CAD\$0.77 per share for a period of five years — and will be subject to a four month hold under applicable securities laws.

As at September 30, 2021, the Company had 33,001,171 common shares outstanding (December 31, 2020 – 29,552,070 common shares outstanding).

During the nine months ended September 30, 2020:

MedWorxs satisfied the Purchase Price through the issuance of 8,000,000 shares of common stock of MedWorxs to Axon VCT at a fair value of \$0.16 per common stock, assumed \$189 (CDN\$250) of debt of Axon VCT, and converted the principal amount of \$136 (CDN\$180) in promissory notes previously issued by Axon VCT into 720,000 shares of common stock of MedWorxs and 720,000 common stock purchase warrants of MedWorxs at a price of \$0.204 per share at a fair value price of \$0.03 per share and \$0.204 exercise price, respectively, as those used in the unit offering.

On February 21, 2020, MedWorxs completed the unit offering for gross proceeds of \$371 (CDN\$490), resulting in the issuance of 1,960,000 shares of common stock of MedWorxs at \$0.19 per common stock and 1,960,000 common stock purchase warrants, with each warrant being exercisable until February 23, 2021 at a fair value of \$0.03 and at an exercise price of \$0.204 (CDN\$0.25) per share.

On March 2, 2020, the MedWorxs completed the acquisition of RPM Billing LLC through the issuance of 2,732,070 shares of common stock and 81,000 employee stock options of MedWorxs and the assumption of certain debts of RPM Holding. The Company hired the principal of RPM Billing to be the Chief Marketing Officer subsequent to the acquisition.

As at September 30, 2020, the Company had 28,412,070 common shares outstanding.

Incentive Plans

The Company has adopted a Stock Option Plan (“SOP”) under which it is authorized to grant stock options (“Options”) to officers, directors, employees and consultants enabling them to acquire common shares of the Company. The Company has also adopted a Restricted Share Unit Plan (“RSU Plan”) under which it is authorized to grant restricted share units (“RSUs” and, together with Options, “Awards”) to officers, directors, employees and consultants enabling them to acquire common shares of the Company. The maximum number of common shares reserved for issuance of Awards that may be granted under the plan is 10% of the issued and outstanding common shares of the Company.

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12. SHARE CAPITAL (continued)

The stock option activity for the period were as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2020	2,501,000	\$ 0.21
Granted	605,000	0.67
Forfeited	(25,000)	0.20
Exercised	(63,020)	0.20
Outstanding as at Sept 30, 2021	3,017,980	\$ 0.30
Exercisable as at Sept 30, 2021	1,423,613	\$ 0.24

As of September 30, 2021, the Company had the following stock options outstanding:

Exercise Price	Number of options outstanding	Weighted average remaining life (months)
\$ 0.20	800,000	41
\$ 0.60	500,000	57
\$ 0.20	1,560,980	101
\$ 0.50	42,000	102
\$ 0.50	10,000	104
\$ 1.00	105,000	113
	3,017,980	78

During the three and nine months ended September 30, 2021 the Company incurred \$34 and \$97 (September 30, 2020 - \$19 and \$26), respectively, in share-based payments related to the vesting of stock options. All options were valued using the Black-Scholes valuation model.

Issuance Date	25-Feb-20	25-Feb-20	8-Apr-20	18-May-20	3-Mar-21	1-Jul-21
Exercise price	\$0.20	\$0.20	\$0.50	\$0.50	\$1.00	\$0.62
Expected life (months)	120	120	120	120	120	60
Expected volatility	64.5%	64.5%	64.5%	64.5%	64.5%	64.5%
Dividend rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	1.16%	1.16%	0.77%	0.73%	0.73%	0.97%
Grant date fair value	\$0.06	\$0.11	\$0.08	\$0.08	\$0.16	\$0.34

Warrants

A summary of all warrants issued is as follows:

	Warrants Outstanding	Weighted average exercise price	Fair Value per Share
Balance, December 31, 2020	3,215,000	\$0.204	\$ 0.06
Exercised, Feb 2021	(1,640,000)	\$0.204	\$ 0.03
Issued, May 31, 2021	317,100	\$1.500	\$ 0.21
Issued, May 31, 2021	16,530	\$1.000	\$ 0.35
Balance, September 30, 2021	1,908,630	\$0.426	

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12. SHARE CAPITAL (continued)

Warrant holders exercised 1,640,000 shares for a weighted average price of \$0.204 per share. All warrants were valued using the Black-Scholes valuation model.

<u>Issuance Date</u>	<u>May 31, 2021</u>		<u>May 31, 2021</u>	
Exercise price	\$	1.50	\$	1.00
Expected life (years)		2		2
Expected volatility		64.5%		64.5%
Dividend rate		0.00%		0.00%
Risk-free interest rate		0.14%		0.14%
Grant date fair value	\$	0.21	\$	0.35

13. LOSS PER SHARE

The weighted average number of shares includes common shares. The effect of adjustments to the weighted average number of common shares would be anti-dilutive when the Company incurs losses.

The calculation of basic and diluted (loss) per share for the period ended was based on the information in the table below.

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30</u>	<u>September 30,</u>	<u>September 30</u>	<u>September 30,</u>
<i>(Expressed in thousands of US dollars, except share and per share amounts)</i>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Basic weighted average number of shares outstanding - opening balance	31,889,290	28,412,070	29,552,070	15,000,000
Issuance of shares on Axon acquisition	-	-	-	8,665,202
Issuance of shares on RPM acquisition	-	-	-	2,131,615
Options exercised	-	-	42,092	-
Warrants exercised	-	-	1,490,956	-
Private placements	1,111,881	-	653,540	-
Basic weighted average number of shares outstanding - ending balance	33,001,171	28,412,070	31,738,658	25,796,817
Dilutive weighted average number of shares outstanding	33,001,171	28,412,070	31,738,658	25,796,817
Net loss for the period	\$ (476)	\$ (342)	\$ (1,368)	\$ (730)
Weighted average basic loss per share	\$ (0.014)	\$ (0.012)	\$ (0.043)	\$ (0.028)
Weighted average diluted loss per share	\$ (0.014)	\$ (0.012)	\$ (0.043)	\$ (0.028)

14. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. In addition to short-term employee benefits, the Company may also issue RSUs or options as part of the stock option plan. Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly.

As at September 30, 2021, the Company owed \$nil (December 31, 2020 - \$31) to the CEO as part of general and administrative expenses personally paid by the executive on behalf of the Company. The balances owed to the CEO are unsecured, non-interest bearing with no repayment terms.

For the three and nine months ended September 30, 2021, key management personnel compensation comprising of salaries and equity compensation totaled \$263 and \$713, respectively (three and nine months ended September 30, 2020 - \$135 and \$397, respectively).

Due to related parties as at December 31, 2020 represents payables to Kovo of \$101 prior to the Reverse Takeover (Note 5), \$31 payable to the CEO as part of general and administrative expenses personally paid by the executive on behalf of the Company and amounts owed to a shareholder of \$7 which was repaid in full in January 2021. The balances owed to the related parties were unsecured, non-interest bearing with no repayment terms.

15. COMMITMENT AND CONTINGENCIES

Commitments

The Company has one operating lease for its offices in Reno, Nevada. The lease at Reno ends on August 31, 2023. In addition, the Company has an operating lease for its Billings, Montana office. The Montana lease is on a month-to-month basis.

Contingencies

The Company was served with a statement of claim in connection with the purchase of assets in July 2017. The claim was initiated by the landlord for the lease obligation owed by the vendor, Accounts Receivable Concepts ("ARC") LLC. The Company completed an asset deal of ARC's customer lists only. The Company and its legal counsel believe the lawsuit is without merit and is a liability of the former vendor of ARC. Therefore, the Company has not accrued any liability in regard to this claim as at September 30, 2021.

16. COVID-19 AND ITS IMPACT ON THE BUSINESS ENVIRONMENT

Beginning in March 2020, the Governments of Canada and the United States, as well as other foreign governments instituted emergency measures as a result of the COVID-19 virus outbreak. The virus has had a major impact on North America and international securities, currency markets and consumer activity which may impact the Company's financial position, its results of future operations and its future cash flows significantly. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of future operations, financial position, and liquidity in fiscal year 2021.

17. SUBSEQUENT EVENTS

Subsequent to the quarter ended September 30, 2021 but prior to the release of these condensed consolidated interim financial statements, the following events occurred:

Private Placement

On October 25, 2021, the Company closed a brokered private placement (the "Private Placement") offering.

As part of the Private Placement, Kovo issued 3,012,500 units at a price of \$0.40 CDN per unit (the "Offering Price") for aggregate gross proceeds of \$973, or CDN\$1,205. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire one Common Share at a price of \$0.70 CDN for a period of 24 months from the closing date, subject to acceleration terms described below.

The Warrants will be subject to early expiration if, at any time prior to the expiry date of the Warrants, the volume weighted average trading price of the Common Shares on the TSX Venture Exchange (the "TSXV"), or other principal exchange on which the Common Shares are listed, is greater than C\$1.00 for 10 consecutive trading days.

Pursuant to applicable Canadian securities laws, the securities issued and issuable in connection with the Private Placement will be subject to a hold period of 4 months ending on February 25, 2022.

In connection with the Private Placement, the Agent received an aggregate cash fee equal to \$43 and an aggregate of 134,063 non-transferable broker warrants (the "Broker Warrants"). Each Broker Warrant entitles the holder thereof to purchase one Unit at an exercise price equal to the Offering Price for a period of 24 months following the closing of the Private Placement.

Acquisition

Effective November 1, 2021, the Company entered into an Asset Purchase agreement with The Cvikota Company, Inc. ("The Cvikota Company" or the "Seller"). The Cvikota Company is a Wisconsin-based Revenue Cycle Management specialist firm that has been in business for more than 50 years and provides RCM services. The Company will, through a wholly-owned subsidiary, purchase substantially all of the assets of The Cvikota Company, including associated trademarks, trade names, brand names goodwill, customer lists and customer contracts.

As consideration for the acquisition, the Company will: (i) pay to the Seller cash consideration of approximately \$1,375 USD paid at closing (the "Closing Payment"), (ii) , a promissory note (the "Note") in the amount of \$687.5, with interest at the rate of five percent (5%) per annum. and (iii) in January 2022, the Buyer will cause Kovo to issue common shares having a value, in USD, equal to: gross receipts for 2021 actually collected from certain accounts lined to the acquired business, less the Closing Payment, less the face amount of the Note. The pricing of the shares will be the greater of the (i) the 10 day value weighted average of the closing price at issuance, (ii) the Market Price as defined in the TSX Venture Exchange Policy 1.1 on the date prior to issuance, and (iii) CAD\$0.40. The maximum number of shares that may be issued shall not result in a new control person under the policies of the TSXV. Principal of the Note shall be due as to one-half on November 1, 2022, and the remaining half on November 1, 2023.

The completion of the acquisition is subject to the satisfaction of a number of closing conditions, including receipt of the approval of the TSXV. Provided that all closing conditions are satisfied, the acquisition is expected to close in November 2021. There can be no assurance that the transaction will be completed on the terms contained herein or at all.

17. SUBSEQUENT EVENTS (continued)

Debt Financing

On November 10, 2021, the Company completed a secured acquisition debt facility up to \$7,000 (“Investment Agreement”). The funding is to be used to finance accretive RCM acquisitions. The details of the funding are as follows:

The Investment Agreement has been structured as a non-revolving senior secured multi-draw term facility to fund acquisitions. Under the terms of the Investment Agreement, up to \$7,000 (the "Investment Amount"), up to \$1,500 will be available to be drawn on closing, with each subsequent draw to be subject to the agreement of the Company and the lender. The Company's right to draw any amount in excess of \$4,000 under the facility will be subject to the Company first raising equity financing in the amount of CAD\$1.5 million. Subject to compliance with the policies of the TSXV, the Company will grant to the lender 40% warrant coverage on each tranche priced at market at the time of each such draw and will receive a six-month interest penalty for early termination. The repayment terms are interest only in the range of 15 to 16 per cent for the term of the loan with a balloon payment after 36 months from the first tranche being drawn. Beginning on the fiscal quarter ending June 30, 2022, both the Company and its wholly-owned subsidiary, Kovo Acquisitions LLC are each individually subject to (a) a maximum net debt to EBITDA ratio financial covenant (“Net Debt to EBITDA”) of 3.5x until December 31, 2022 after which the Net Debt to EBITDA ratio shall be no more than 3.25x and (b) a fixed charge coverage ratio financial covenant (“FCCR”) measured on a year-to-date quarter-end annualized basis, of no less than 1.1x until December 31, 2022, after which the FCCR shall be no less than 1.2x and will be measured on a quarter-end trailing twelve-month basis.

The first tranche of the financing was drawn upon November 10, 2021 to complete the Cvikota acquisition on November 10, 2021 (the “First Tranche Loan”). Pursuant to the First Tranche Loan, the Company issued the lender 2,133,943 warrants to acquire common shares of the Company at an exercise price of \$0.35 per common share