



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

**FOR THE THREE AND NINE MONTHS ENDED**  
**SEPTEMBER 30, 2022 AND SEPTEMBER 30, 2021**

**Management's Comments on Unaudited Condensed Interim Consolidated Financial Statements**

The accompanying unaudited condensed interim consolidated financial statements of Kovo HealthTech Corporation, for the three and nine months ended September 30, 2022 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that the accompanying unaudited condensed interim consolidated financial statements have not been reviewed by an auditor.

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

**Consolidated Statements of Financial Position**

	Note	September 30, 2022 (unaudited) \$	December 31, 2021 \$
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 1,130	\$ 711
Accounts receivable	4	165	155
Other receivables and prepaid expenses		256	326
Current portion of promissory note receivable	4	6	6
		<b>\$ 1,557</b>	<b>\$ 1,198</b>
<b>Non-current</b>			
Right of use assets	5	340	604
Property Plant and Equipment		54	-
Intangible assets	6	2,878	2,971
Promissory note receivable	4	197	190
Goodwill		2,371	2,371
<b>Total assets</b>		<b>\$ 7,397</b>	<b>\$ 7,334</b>
<b>Liabilities and shareholders' deficiency</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		857	996
Taxes payable		45	94
Short term debts	7	679	1,265
Due to related parties		-	861
Current portion of lease liabilities	8	201	253
		<b>\$ 1,782</b>	<b>\$ 3,469</b>
<b>Non-current</b>			
Long term debts	7	4,210	3,006
Deferred Tax Liability		663	663
Lease liabilities	8	154	366
<b>Total liabilities</b>		<b>\$ 6,809</b>	<b>\$ 7,504</b>
<b>Shareholders' equity (deficiency)</b>			
Share capital	9	5,803	4,844
Contributed surplus	9	1,122	995
Deficiency		(6,337)	(6,009)
<b>Total shareholders' equity (deficiency)</b>		<b>\$ 588</b>	<b>\$ (170)</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 7,397</b>	<b>\$ 7,334</b>

*Going concern (Note 1)*

*Contingencies (Note 13)*

*Subsequent events (Note 15)*

*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 share or per share amounts)

## Consolidated Statements of Operations and Comprehensive Loss

	Note	For the Three months ended		For the nine months ended	
		September 30, 2022 (unaudited) \$	September 30, 2021 \$	September 30, 2022 (unaudited) \$	September 30, 2021 \$
<b>Revenue</b>					
RCM revenue		\$ 2,321	\$ 1,447	\$ 7,090	\$ 2,730
Inpatient systems		103	113	302	396
Ambulatory software		48	50	145	154
Software revenue		48	44	429	125
<b>Total revenue</b>		<b>\$ 2,520</b>	<b>\$ 1,654</b>	<b>\$ 7,966</b>	<b>\$ 3,405</b>
<b>Operating expenses</b>					
Salaries and benefits		1,906	1,181	5,671	2,883
General and administrative	10	707	619	2,216	1,253
Share-based compensation	9	59	34	225	97
Depreciation and amortization	5,6	179	150	486	384
<b>Total operating expenses</b>		<b>\$ 2,851</b>	<b>\$ 1,984</b>	<b>\$ 8,598</b>	<b>\$ 4,617</b>
<b>Net operating loss</b>		<b>\$ (331)</b>	<b>\$ (330)</b>	<b>\$ (632)</b>	<b>\$ (1,212)</b>
<b>Other income (expense)</b>					
Interest expense		(168)	(105)	(560)	(257)
Other expense		(1)	(86)	(1)	(86)
Reverse takeover transaction costs		-	-	-	(356)
Other income		721	45	865	543
<b>Net other expense</b>		<b>\$ 552</b>	<b>\$ (146)</b>	<b>\$ 304</b>	<b>\$ (156)</b>
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ 221</b>	<b>\$ (476)</b>	<b>\$ (328)</b>	<b>\$ (1,368)</b>
<b>Loss per share</b>					
Basic	11	<b>0.006</b>	<b>(0.014)</b>	<b>(0.008)</b>	<b>(0.043)</b>
Diluted	11	<b>0.006</b>	<b>(0.014)</b>	<b>(0.008)</b>	<b>(0.043)</b>
<b>Weighted average number of common shares outstanding</b>					
Basic	11	<b>39,809,667</b>	<b>33,001,171</b>	<b>39,121,960</b>	<b>31,738,658</b>
Diluted	11	<b>39,809,667</b>	<b>33,001,171</b>	<b>39,121,960</b>	<b>31,738,658</b>

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 share or per share amounts)

**Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**

	Note	Number of common shares outstanding	Share capital \$	Contributed surplus \$	Deficiency \$	Total shareholders' deficiency \$
<b>Balances as at December 31, 2020</b>		<b>29,552,070</b>	<b>\$ 2,489</b>	<b>\$ 206</b>	<b>-\$ 3,309</b>	<b>-\$ 614</b>
Vesting of options issued	9	-	-	63	-	63
Options Exercised	9	63,020	23	(6)	-	17
Warrants exercised	9	1,640,000	390	(55)	-	335
Acquisition share issuance	9	1,111,881	767	34	-	801
Private placement, net of costs	9	634,200	616	-	-	616
Issuance of warrents through private placement	9	-	(64)	64	-	-
Broker warrants issued	9	-	(6)	6	-	-
Net loss and comprehensive loss		-	-	-	(1,368)	(1,368)
<b>Balances as at September 30, 2021</b>		<b>33,001,171</b>	<b>\$ 4,215</b>	<b>\$ 312</b>	<b>\$ (4,677)</b>	<b>\$ (150)</b>
	Note	Number of common shares outstanding	Share capital \$	Contributed surplus \$	Deficiency \$	Total shareholders' deficiency \$
<b>Balances as at December 31, 2021</b>		<b>36,154,184</b>	<b>\$ 4,844</b>	<b>\$ 995</b>	<b>-\$ 6,009</b>	<b>-\$ 170</b>
Share-based compensation	9	657,884	98	127	-	225
Acquisition share issuance	9	3,131,838	861	-	-	861
Net loss and comprehensive loss		-	-	-	(328)	(328)
<b>Balances as at September 30, 2022</b>		<b>39,943,906</b>	<b>\$ 5,803</b>	<b>\$ 1,122</b>	<b>\$ (6,337)</b>	<b>\$ 588</b>

*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 share or per share amounts)

## Consolidated Statements of Cash Flows

	Note	For the nine months ended	
		September 30, 2022 (unaudited) \$	September 30, 2021 \$
<b>OPERATING ACTIVITIES</b>			
Net loss and comprehensive loss		\$ (328)	\$ (1,368)
Adjustments for non-cash items:			
Depreciation and amortization	5,6	486	384
Reverse takeover transaction costs		-	356
Accretion of contingent consideration		-	20
Interest expense	7	167	48
Loan forgiveness	7	(608)	-
Accretion expense on lease liabilities	8	38	20
Share based compensation	9	225	97
Net foreign exchange (gain) loss		(17)	8
Gain on lease extinguishment	8	(11)	-
Other Income		-	(21)
Net change in working capital:			
Accounts receivable		(10)	(51)
Other receivables		70	86
Accounts payable and accrued liabilities		(139)	173
Taxes payable		(49)	(72)
Contract liabilities		-	(7)
<b>Net cash generated (used) in operating activities</b>		<b>\$ (177)</b>	<b>\$ (327)</b>
<b>INVESTING ACTIVITIES</b>			
Additions to capitalized software costs	6	(183)	(122)
Additions to property plant and equipment		(78)	-
Receipts on notes receivable		5	13
Net payment for Midwest acquisition		-	50
Cash received in reverse takeover transaction		-	202
<b>Net cash generated (used) in investing activities</b>		<b>\$ (256)</b>	<b>\$ 143</b>
<b>FINANCING ACTIVITIES</b>			
Net receipts on debt	7	1,850	600
Net payments on debt	7	(785)	(614)
Net (payments to) receipts from related parties		-	(139)
Receipts of common share issuances, net		-	609
Receipts of options exercised		-	17
Receipts of warrants exercised		-	84
Lease payments	8	(213)	(70)
<b>Net cash generated (used) in financing activities</b>		<b>\$ 852</b>	<b>\$ 487</b>
<b>Net increase in cash</b>		<b>419</b>	<b>303</b>
Cash balance, beginning of the period		711	153
<b>Cash balance, end of period</b>		<b>\$ 1,130</b>	<b>\$ 456</b>
<b>Supplemental information</b>			
Interest paid		(290)	(196)
Income taxes paid		(49)	(72)
Promissory notes issued for options exercised		-	17
Promissory notes issued for warrants exercised		-	251
Share consideration for acquisitions		-	774

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

## **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 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**

Kovo completed a reverse takeover transaction pursuant to the terms of an amalgamation agreement dated May 31, 2021, among Kovo, MedWorx Inc. (“MedWorx”), 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 MedWorx 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. Additionally, holders of MedWorx options and warrants outstanding at the time of closing the transaction also received equivalent instruments of the Company exercisable for or convertible into the Company’s common shares.

### **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, 2022, the Company generated a loss from operations of \$632 (nine months ended September 30, 2021– loss of \$1,212), and a net loss of \$328 (nine months ended September 30, 2021– net loss of \$1,368). As at September 30, 2022, the Company had a working capital deficit of \$225 (December 31, 2021 – \$2,271) and long-term debts of \$4,364 (December 31, 2021 - \$3,372). As of September 30, 2022, the Company had a net-asset position of \$588 (December 31, 2021 – net-liability position of \$170). 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, 2021 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, 2021 annual consolidated financial statements.

These condensed consolidated interim financial statements were approved by the board of directors of the Company for issue on November 30, 2022.

### **(b) Basis of Measurement**

The condensed consolidated interim financial statements have been prepared on the historical cost basis, with the exception of 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., Kovo Acquisitions LLC, and Kovo Human Capital LLC; MedWorxs Inc.’s wholly owned subsidiaries, RPM Billing LLC and NOC5280 LLC; and Kovo Acquisitions LLC’s operating businesses including Midwest Medical Billing Services (“Midwest”) and The Cvikota Company (“Cvikota”), Inc. 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 all subsidiaries.

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 the holding Company, Kovo, is determined to be Canadian dollars.

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

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

### **(f) Use of Estimates and Judgements**

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 consolidated year end 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 has estimated, on initial recognition, the fair market value of certain debts that do not have a defined coupon rate, 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 7.

##### 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 9.

##### Going concern

The assumption that the Company will be able to continue as a going concern (refer Note 1) 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)**

### Goodwill, intangible assets and related impairment

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.

Future cash flows are estimated based on multiyear extrapolation of the most recent budgets and a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on Management’s estimate of the growth rate specific to the CGU being tested. The future cash flow estimates are then discounted to their present value using an appropriate discount rate that incorporates a risk premium specific to each business. The Company’s determination of a CGU’s recoverable amount based on fair value less cost to sell uses factors such as royalty rates for comparable assets. 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.

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 in the range of 9%-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)**

### 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 consolidated year end 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).

### 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 accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the Company's annual consolidated financial statements for the year ended December 31, 2021 except for ones noted below. In the period ended September 30, 2022, the Company has not early adopted any standard, interpretation, or amendment.

### **Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation, amortization and impairment losses. Cost includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is calculated using the straight-line method to allocate their cost net of their residual values over their estimated useful lives as follows:

<b>Classification</b>	<b>Useful Life</b>
Computer equipment	2 years
Implementation Costs	2 year
Website Development	2 years

#### **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 risks and continuously assesses the impact and likelihood of this exposure. These risks include credit risk, liquidity risk, market risk including currency risk 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.

There is no concentration risk for accounts receivables as only one customer represents greater than 10% of the Company's total sales, of which collections has never been an issue and their entire balance is current. The Company evaluates credit losses on a regular basis based on the aging and collectability of its receivables. As at September 30, 2022, there was an allowance for doubtful accounts in the amount of \$15 (December 31, 2021 - \$nil).

On November 8, 2021, the Company amended the terms of a non-interest bearing secured promissory note receivable which was originally issued January 21, 2021, extending the due date from February 5, 2022 to February 15, 2024. The new agreement contains fixed monthly payments for 24 periods effective November 15, 2021, with the remaining balance being paid on February 15, 2024. Given that the loan is interest free and long term, the Company discounted the promissory note receivable at a market interest rate of 9% resulting in a financing expense of \$40 to be accreted over the term of the loan. As of September 30, 2022 \$6 (December 31, 2021 - \$6) was included in current portion of promissory note receivable and \$197 (December 31, 2021 - \$190) in non-current portion promissory note receivable and \$13 (September 30, 2021 - \$0) being included in interest income.

The following table provides information regarding the aged trading receivables:

	Current	31-60 days	61-90 days	91+ days
September 30, 2022	40%	8%	1%	51%

**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)

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

**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 and maintains unutilized credit facility to manage liquidity risk.

To date, the Company has generated operating losses and net cash outflows from operations (Note 1), and has relied on equity to fund its operations and acquisitions and will need to continue to secure additional funding for operations. 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.

The following table sets out the Company's contractual maturities (representing undiscounted contractual cash flows) of financial liabilities and commitments:

	12 months \$	1 to 2 years \$	3 to 5 years \$	Thereafter \$	Total \$
Accounts payable and accrued liabilities	857	-	-	-	857
Debts	782	1,047	2,084	2,908	6,821
Lease liabilities	224	149	12	-	385
	\$ 1,863	\$ 1,196	\$ 2,096	\$ 2,908	\$ 8,063

**c) Interest risk**

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 three debt instruments subject to variable interest rates (Note 7). If the interest rates were to increase substantially that would have a negative impact on the Company cash reserves and debt instruments. If the interest rates were to fluctuate by 1%, based on a weighted average cost of interest, the annual impact on interest expense incurred by the Company would be \$4. 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.

**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, 2022 \$
Cash	5
Notes and other receivables	64
Accounts payable and accrued liabilities	69
Long term debt	212

**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)

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

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 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 income (loss) of \$3 (December 31, 2021– net income (loss) of \$10).

**5. RIGHT-OF-USE ASSETS**

	<b>ROU Assets</b>	
<b>Cost</b>		
Balances as at December 31, 2021	\$	963
Additions		-
Disposals		(207)
Balances as at September 30, 2022	\$	756
<b>Accumulated Depreciation</b>		
Balances as at December 31, 2021	\$	(359)
Amortization		(186)
Reversal of amortization on disposals		129
Balances as at September 30, 2022	\$	(416)
<b>Net Book Values as at December 31, 2021</b>	<b>\$</b>	<b>604</b>
<b>Net Book Values as at September 30, 2022</b>	<b>\$</b>	<b>340</b>

The right-of-use (“ROU”) assets represent an operating lease for office leases, all of which are utilized by the Company (Note 8).

**6. GOODWILL AND INTANGIBLE ASSETS**

	<b>Intangible Assets</b>			
	<b>Intellectual</b>		<b>Software</b>	<b>Total</b>
	<b>Property</b>	<b>Customer Lists</b>		
<b>Cost</b>				
Balances as at December 31 2021	\$	458	\$	2,831
Additions		-		183
Balances as at September 30, 2022	\$	458	\$	2,831
			\$	878
			\$	4,167
<b>Accumulated Amortization</b>				
Balances as at December 31, 2021	\$	(458)	\$	(105)
Amortization		-		(155)
Balances as at September 30, 2022	\$	(458)	\$	(260)
			\$	(571)
			\$	(1,289)
<b>Net carrying amount as at December 31, 2021</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>2,726</b>
<b>Net carrying amount as at September 30, 2022</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>2,571</b>
			\$	245
			\$	2,971
			\$	307
			\$	2,878

Software licenses are capitalized as part of the Company's review of IAS 38 guidelines. The Company capitalizes 50% of its software development salaries and amortizes them over a 36-month period. The Company completes an impairment analysis to ensure the carrying value is supported by the revenue generated from the software licenses. Other intangible assets include customer lists acquired with the RPM Acquisition, customer lists acquired with the Midwest acquisition and customer lists acquired with the Cvikota acquisition. Customer lists are recorded at the fair value as at the time of the acquisition and amortized over ten to fifteen years on a prorated basis.

**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)

**7. DEBTS**

<b>Short Term Debt</b>	<b>Interest Rate</b>	<b>Principle Balance 9/30/2022</b>
Paypal Working Capital Loan	25.40%	\$ 67
<b>Short Term Debt/ Weighted Average Interest Rate</b>	<b>25.40%</b>	<b>\$ 67</b>
<b>Long Term Debt</b>	<b>Interest Rate</b>	<b>Principle Balance 9/30/2022</b>
EIDL Loan	3.75%	\$ 2,045
Flow Capital Acquisition Line	16.00%	\$ 1,222
Promissory Note to Curt Cvikota	5.00%	\$ 666
Tech-Time Debts	7.50%	\$ 204
Hingwala Convertible Debt	25.00%	\$ 212
Small Business Administration Loan 2	7.50%	\$ 196
Small Business Administration Loan 1	7.50%	\$ 175
Funding Circle Loan	15.82%	\$ 53
Small Business Administration Loan 3	7.50%	\$ 49
<b>Long Term Debt/ Weighted Average Interest Rate</b>	<b>8.58%</b>	<b>\$ 4,822</b>
<b>Total Debt/ Weighted Average Interest Rate</b>	<b>8.81%</b>	<b>\$ 4,889</b>
<b>Weighted Average Interest Rate Increase for 100bp Increase in Fed Rate</b>	<b>0.13%</b>	

Short Term Debt

*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 the 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 per month or 1.125% of trailing 12-month revenue if 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, which the Company executed on May 10, 2022 to extinguish the debt. The Company paid \$0 and \$37 in interest expense during the three and nine months ended September 30, 2022 (three and nine months ended September 30, 2021 - \$18 and \$56). As a result of repayment the balance as of September 30, 2022 was \$nil (December 31, 2021 \$600).

*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, 2021: 25.4%). The loan is due within twelve months of issuance. As of February 2021, the loan was renewed for another twelve months with the option to extend indefinitely as long as minimum payment required every 90 days (\$3) is paid. As of September 30, 2022, the balance was \$67 included in short term debts (December 31, 2021: \$80).

**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)

---

**7. DEBTS** (continued)

*Regents Capital Debt*

On November 1, 2021, as part of the acquisition of the assets of Cvikota, Kovo assumed an equipment loan in the amount of \$17 maturing on September 6, 2022, with quarterly interest and principle payments of \$5. As of September 30, 2022, the balance was \$nil (December 31, 2021 - \$14).

*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 fixed 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. The Company repaid the balance in full and has an outstanding balance of \$nil (December 31, 2021 - \$1).

Long Term Debt

*EIDL loan*

On June 8, 2020, the Company received \$150 and on April 26, 2022 the Company received an additional amount of \$1,850, for a total of \$2,000, 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. The loan carries an interest rate of 3.75% and is amortized over 30 years, with the first payment due 30 months after the loan origination date, accruing interest until payments commence. Such amounts will reduce the Company's PPP loan forgiveness amount described below. The Company incurred \$19 and \$36 in interest expense during the three and nine months ended September 30, 2022 (three and nine months ended September 30, 2021 - \$1 and \$4). As of September 30, 2022 the balance was \$2,045 (December 31, 2021 - \$153), of which \$31 was included in short term debt and \$2,014 included in long term debt.

*Flow Capital Acquisition Line*

On November 10, 2021, the Company entered into a non-revolving senior secured multi-draw term facility with Flow Capital Corp to fund acquisitions. Under the terms of the Agreement, up to \$7,000 may be loaned to Kovo in a series of draws consisting of a first tranche loan in the amount of \$1,500, and if applicable one or more additional advances of capital not exceeding \$5,500. The first tranche of \$1,500 has interest only payments of \$20 per month and a maturity date of November 31, 2024. Pursuant to the First Tranche Loan, the Company will issue to the lender 2,133,943 warrants to acquire common shares of the Company ("Warrants") at an exercise price of CAD\$0.35 per common share. The loan was secured against the assets of the Company.

The amount allocated to the Warrants of \$396 was recorded as a discount to the loan and as contributed surplus. The discount will be amortized over the life of the loan and during the three and nine months ended September 30, 2022, the Company amortized \$33 and \$99 of the debt discount. As of September 30, 2022, the interest rate applicable was 16% and the balance was \$1,222 (December 31, 2021 - \$1,123) included in long term debts.

The Company is subject to certain financial covenants beginning on the fiscal quarter ending June 30, 2022. Some of the covenants are currently offside and we are working with the lender to resolve.

## 7. DEBTS (continued)

### *Promissory Note to Curt Cvikota*

On November 1, 2021, the Company acquired the assets of The Cvikota Company and as part of the consideration issued a non-secured promissory note for \$688, with interest at the rate of five percent (5%) per annum. The principal of the note shall be due as to one-half on November 1, 2022 and the remaining half on November 1, 2023. Interest only payments are made monthly in the amount of \$3, reducing to \$1 as of December 1, 2022. As of September 30, 2022, the balance was \$666 (December 31, 2021 - \$652), of which \$344 was included in short term debts and \$322 was included in long term debts.

### *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 fixed 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 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 will be 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.

On July 7, 2022, the Company received notification from the Small Business Association that the Company's Forgiveness Application of the PPP Loan and accrued interest, totaling \$608, 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, 2022, the PPP Loan balance was \$nil (December 31, 2021 - \$606).

**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)

---

**DEBTS** (continued)

*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 a fixed interest rate of 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 paid the balance during 2020.

In addition to the secured promissory note, the Company committed to a non-interest-bearing consulting contract with the former president of Tech-Time to provide MedWorx services totaling \$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, 2022 using an imputed interest rate similar to a Small Business Administration (“SBA”) loan, which as of September 30, 2022 was 7.5% (December 31, 2021: 6%) and assumes a maturity of November 30, 2024. Based on these discount factors, the fair value calculated as at September 30, 2022 was \$204 (December 31, 2021 - \$267) of which \$86 was included in short term debts and \$118 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 accruing quarterly. The debt was convertible at USD\$1.00 per common share at the discretion of the debtholder, thus resulting in a foreign exchange variability embedded at conversion. On December 3, 2021 this agreement was amended to (i) extend the maturity date from January 18, 2023 to January 18, 2024 and (ii) update the conversion price of shared from USD\$1.00 to CAD\$0.40. This change resulted in an extinguishment of the debt. Management notes that as of December 3, 2021, the amount of debt extinguished was \$164 with the new debt of \$194 recorded.

Management has evaluated the terms of the December 3, 2021 compound financial instrument and concluded the financial instruments comprising of two elements - 1) debt, 2) conversion feature. Management believes that the conversion feature does not contain a derivative as the related conversion feature indicate the fixed number of common shares to be converted at CAD \$0.4/common share and therefore does meet the fixed-to-fixed criteria as defined under IFRS. As such, the fair value of the equity component was recorded in equity in the amount of \$96. As of September 30, 2022 the balance of \$212 (December 31, 2021 - \$199) was recorded in long term debt.

*Small Business Administration Loan 2*

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, 2022, the interest rate applicable was 7.5% (December 31, 2021 – 6%) and the outstanding balance was \$196 (December 31, 2021 - \$218) of which \$32 was included in short term debt and \$164 included in long term debts.

*Small Business Administration Loan 1*

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, 2022, the interest rate applicable was 7.5% (December 31, 2021 – 6%) and the balance was \$174 (December 31, 2021 - \$216) of which \$58 was included in short term debt and \$116 included in long term debts.

**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)

---

**7. DEBTS** (continued)

*Funding Circle Loan*

On September 21, 2017, the Company obtained an unsecured loan for \$100 from FC Marketplace, LLC (“Funding Circle”) with a maturity date of September 30, 2023 bearing a fixed interest rate 15.82%. In September 2018, the loan limit was increased to \$200. As of September 30, 2022, the outstanding balance was \$54 (December 31, 2021 - \$93) of which \$54 was included in short term debts.

*Small Business Administration Loan 3*

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, 2022, the interest rate applicable was 7.5% (December 31, 2021 – 6%) and the outstanding balance was \$49 (December 31, 2021 - \$54) of which \$7 was included in short term debt and \$42 included in long term debts.

Scheduled repayments of all short-term debt, long term debt are as follows:

	\$
2022	439
2023	719
2024	2,205
2025	207
2026	167
Thereafter	3,033
Less: effective interest	(1,881)
	<u>4,889</u>

**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)

**8. LEASE LIABILITIES**

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

	September 30, 2022
Beginning balance as of January 1, 2022	\$ 619
Additions	-
Disposals	(89)
Payment of lease obligations	(213)
Interest expense on lease obligations	38
Ending Balance as of September 30, 2022	\$ 355

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

	September 30, 2022
Maturity analysis – contractual undiscounted cash flows	
Less than one year	\$ 224
One to five years	160
<b>Total undiscounted lease obligations</b>	<b>\$ 384</b>
Lease obligations	\$ 355
Current portion	\$ 201
Non-current portion	\$ 154

Leases greater than one year were capitalized as right of use assets (Note 5). As at September 30, 2022, the Company had three leases with lease terms greater than a year used for office space obtained as part of its acquisition of Midwest and Cvikota. For Midwest the office lease ends on October 31, 2023. For Cvikota, the 2 office leases end on October 31, 2024.

The Company disposed of two leases during the three months ended September 30, 2022. On July 16, 2022 the Company terminated the Cvikota office lease in Knoxville Tennessee, \$2 per month, with no intentions to replace. The Company recorded a loss on cancellation of \$1 in Other Income. On July 30<sup>th</sup> the Company terminated the RPM lease in Reno Nevada, \$5 per month, and replaced with an office in Reno Nevada for \$1 per month. The new contract is for a term of 6 months, with an option to renew for an additional 6 months. The Company recorded a gain on cancellation of \$12 in Other Income.

The company also leases a data center which 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.

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

**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)

---

## 9. SHARE CAPITAL

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. Additionally, holders of MedWorxs options and warrants outstanding at the time of closing the transaction also received equivalent instruments of the Company exercisable for or convertible into the Company’s common shares.

### *Common Shares*

The Company has authorized share capital of 38,000,000 common shares without par value (September 30, 2021: 38,000,000).

On January 31, 2022 as part of consideration for The Cvikota Company, Inc. acquisition, the Company issued 3,131,838 common shares of the Company to Curt Cvikota at a quoted price of \$0.28 (CAD\$0.34) per common share, or \$861.

On June 29, 2022 the Company issued a total of 495,384 Common Shares to its leadership team and staff at a quoted price of \$0.17 (CAD\$0.22) per common share, or \$85.

On September 15, 2022 the Company issued a total of 162,500 Common Shares to its leadership team and staff at a quoted price of \$0.08 (CAD\$0.105) per common share, or \$13.

As at September 30, 2022, the Company had 39,943,906 common shares outstanding (December 31, 2021 – 36,154,184 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.

The stock option activity for the period were as follows:

	<b>Number of Options</b>		<b>Weighted Average</b>
As at December 31, 2021	3,351,980	\$	0.31
Granted	100,000	\$	0.31
Forfeited	(202,000)	\$	0.21
Exercised	-	\$	-
Outstanding as at September 30, 2022	3,249,980	\$	0.32
Exercisable as at September 30, 2022	2,539,711	\$	0.28

**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)

**9. SHARE CAPITAL** (continued)

As of September 30, 2022, the Company had the following stock options outstanding:

	<b>Exercise Price</b>	<b>Number of options</b>	<b>Weighted average</b>
\$	0.39	350,000	26
\$	0.20	800,000	29
\$	0.62	500,000	45
\$	0.20	1,360,980	89
\$	0.50	26,000	90
\$	0.50	8,000	92
\$	1.00	105,000	101
\$	0.31	100,000	111
		3,249,980	62

During the three and nine months ended September 30, 2022, the Company incurred \$59 and \$225 (September 30, 2021- \$34 and \$97) respectively in share-based compensation.

The compensation expenses were based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions for the nine months ended September 30, 2022:

<b>Issuance Date</b>	<b>25-Feb-20</b>	<b>25-Feb-20</b>	<b>08-Apr-20</b>	<b>18-May-20</b>	<b>03-Mar-21</b>	<b>01-Jul-21</b>	<b>22-Nov-21</b>	<b>01-Jan-22</b>
Exercise price	\$0.20	\$0.20	\$0.50	\$0.50	\$1.00	\$0.62	\$0.39	\$0.31
Expected life (months)	120	120	120	120	120	60	12	48
Expected volatility	64.5%	64.5%	64.5%	64.5%	64.5%	64.5%	64.5%	98.0%
Dividend rate	0.00%	0.00%	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%	1.05%	1.59%
Grant date fair value	\$0.06	\$0.11	\$0.08	\$0.08	\$0.16	\$0.34	\$0.10	\$0.21

*Warrants*

A summary of all warrants issued is as follows:

	<b>Warrants Outstanding</b>	<b>Weighted average exercise price</b>	<b>Fair Value per Share</b>
Balance December 31, 2021	7,189,136	\$0.44	\$ 0.10
Issued Jan 1 - September 30, 2022	-	\$0.00	-
Exercised Jan 1 - September 30, 2022	-	\$0.00	-
Expired Jan 1 - September 30, 2022	(1,575,000)	\$0.20	\$ 0.08
Balance September 30, 2022	5,614,136	\$0.51	\$ 0.11

All warrants were valued using the Black Scholes valuation model. The fair value of each warrant on the date of the grant was based on the following assumptions for the nine months ended September 30, 2022:

<b>Issuance Date</b>	<b>May 2021</b>	<b>May 2021</b>	<b>Oct 2021</b>	<b>10-Nov-21</b>
Exercise price	\$ 1.50	\$ 1.00	\$ 0.56	\$ 0.28
Expected life (years)	2	2	2	5
Expected volatility	64.5%	64.5%	64.5%	64.5%
Dividend rate	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	0.14%	0.14%	0.14%	1.47%
Grant date fair value	\$ 0.10	\$ 0.35	\$ 0.04	\$ 0.19

**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)

**10. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the three and nine months ended September 30, 2022 and 2021 is comprised of the following:

	For the three months ended		For the nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
Professional expenses	252	284	586	450
Software & IT	111	52	305	157
Public company expenses	125	54	400	239
Office expenses	44	94	289	152
Processing fees	77	22	469	67
Deal-related expenses	-	108	-	108
Other G&A	98	5	168	80
<b>General and administrative expenses</b>	<b>707</b>	<b>619</b>	<b>2,216</b>	<b>1,253</b>

**11. EARNINGS (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 earnings (loss) per share for the period ended was based on the information in the table below.

	For the three months ended		For the nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
<i>(Expressed in thousands of US dollars, except share and per share amounts)</i>				
Basic weighted average number of shares outstanding - opening balance	39,781,406	31,889,290	36,154,184	29,552,070
Issuance of shares on Cvikota acquisition	-	-	2,787,680	-
Options exercised	-	-	-	42,092
Warrants exercised	-	-	-	1,490,956
Private placements	-	1,111,881	-	653,540
Issuance of shares for leadership team	28,261	-	180,096	-
Basic weighted average number of shares outstanding - ending balance	<b>39,809,667</b>	<b>33,001,171</b>	<b>39,121,960</b>	<b>31,738,658</b>
Dilutive weighted average number of shares outstanding	<b>39,809,667</b>	<b>33,001,171</b>	<b>39,121,960</b>	<b>31,738,658</b>
Net loss for the period	\$ 221	\$ (476)	\$ (328)	\$ (1,368)
<b>Weighted average basic loss per share</b>	<b>\$ 0.006</b>	<b>\$ (0.014)</b>	<b>\$ (0.008)</b>	<b>\$ (0.043)</b>
<b>Weighted average diluted loss per share</b>	<b>\$ 0.006</b>	<b>\$ (0.014)</b>	<b>\$ (0.008)</b>	<b>\$ (0.043)</b>

## **12. 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 shares, 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.

For the three and nine months ended September 30, 2022, key management personnel compensation comprising of salaries and equity compensation totaled \$313 and \$1,097, respectively (three and nine months ended September 30, 2021 - \$263 and \$713, respectively).

## **13. CONTINGENCIES**

From time to time, the Company may be involved in various litigation matters, which arise in the ordinary course of business. There is currently no litigation that management believes will have a material impact on the financial position of the Company.

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, 2022.

## **14. 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 ongoing 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 2022.

## **15. SUBSEQUENT EVENTS**

Subsequent to the nine months ended September 30, 2022 but prior to the release of these financial statements, the following event occurred:

On October 31, 2022 the Company terminated an office lease in Omaha, Nebraska, \$7 per month, and replaced with a smaller office in Omaha Nebraska, \$2 per month, yielding a savings of \$5 per month. The majority of staff will be working from home, as is customary for a majority of Kovo's operations since its inception.