

Vitalhub Corp.

**Interim Condensed Consolidated Financial Statements
(Unaudited)**

**For the Three and Nine Months Ended
September 30, 2018 and 2017**

Vitalhub Corp.

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For the Three and Nine Months Ended September 30, 2018 and 2017

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Vitalhub Corp.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

(in Canadian Dollars)

	Note	As at September 30, 2018 \$	As at December 31, 2017 \$
Assets			
Current assets			
Cash	6	3,035,266	4,543,281
Accounts receivable	7	639,953	376,895
Customer option receivable	5 (b)	1,572,963	-
Prepaid expenses		179,542	88,287
		5,427,724	5,008,463
Non-current assets			
Customer option receivable	5 (b)	384,944	-
Property and equipment	8	272,355	58,061
Intangible assets	9	6,447,953	2,027,910
Goodwill	5	5,652,366	1,623,479
		18,185,342	8,717,913
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	1,482,096	961,933
Loans payable	13	362,212	38,880
Contingent consideration	5 (b)	1,572,963	-
Deferred revenue		1,967,107	724,068
		5,384,378	1,724,881
Non-current liabilities			
Debentures	14	1,744,923	1,626,142
Deferred tax liability		1,197,119	65,290
Loans payable	13	169,858	145,800
Contingent consideration	5 (b)	384,944	-
Deferred revenue		69,046	75,000
		8,950,268	3,637,113
Shareholders' Equity			
Share capital	15(a)	13,062,386	8,257,036
Share-based payment reserve	15(b)	664,149	413,539
Warrants reserve	15(c)	1,094,608	1,257,732
Accumulated other comprehensive income (loss)		9,519	(1,783)
Deficit		(5,595,588)	(4,845,724)
		9,235,074	5,080,800
		18,185,342	8,717,913

Approved by the Board of Directors

Daniel Matlow
Director

Barry Tissenbaum
Director

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

Vitalhub Corp.

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(in Canadian Dollars)

	Note	For the three months ended September 30		For the nine months ended September 30	
		2018 \$	2017 \$	2018 \$	2017 \$
Revenues					
Term licences, maintenance and support		1,245,751	129,874	3,240,417	381,902
Perpetual licences		77,999	-	1,820,445	-
Services and other		794,343	30,000	1,837,067	42,500
		2,118,093	159,874	6,897,929	424,402
Cost of sales					
		508,708	25,500	1,292,621	37,000
Gross profit					
		1,609,385	134,374	5,605,308	387,402
Operating expenses					
General and administrative		594,905	457,015	1,923,317	889,571
Sales and marketing		187,219	46,685	682,083	135,935
Research and development		516,718	190,111	1,917,865	639,784
Depreciation and amortization	8 & 9	352,925	489	1,053,524	1,468
Share based compensation	15(b)	140,609	3,554	250,610	87,199
Acquisition, restructuring and related expenses	5	-	-	313,252	-
Foreign currency loss		14,140	-	14,074	1,172
		1,806,516	697,854	6,154,725	1,755,129
Loss from operations					
		(197,131)	(563,480)	(549,417)	(1,367,727)
Financing expenses					
Interest expense		115,772	6	337,163	764
Net loss before income taxes for the period					
		(312,903)	(563,486)	(886,580)	(1,368,491)
Deferred tax recovery		(19,469)	-	(136,716)	-
Net loss for the period					
		(293,434)	(563,486)	(749,864)	(1,368,491)
Exchange differences on translating foreign operations		(1,599)	-	11,302	-
Net loss and other comprehensive loss for the period					
		(295,033)	(563,486)	(738,562)	(1,368,491)
Net loss per share					
Basic and diluted (loss) per share	16	(0.00)	(0.01)	(0.01)	(0.04)
Weighted average number of shares outstanding					
Basic and diluted	16	130,259,755	41,110,405	126,280,649	36,693,797

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

Vitalhub Corp.

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited)

(in Canadian Dollars)

	Note	Share capital		Share-based payment reserve \$	Warrants reserve \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Shareholders' equity \$
		Number #	Amount \$					
Balance - January 1, 2017		34,424,445	2,679,609	142,733	234,326	-	(2,477,078)	579,590
Brokered private placement		32,726,015	1,903,383	-	953,138	-	-	2,856,521
Share based compensation		-	-	87,199	-	-	-	87,199
Expiry of warrants		-	-	-	(12,214)	-	12,214	-
Net loss and comprehensive loss for the period		-	-	-	-	-	(1,368,491)	(1,368,491)
Balance - September 30, 2017		67,150,460	4,582,992	229,932	1,175,250	-	(3,833,355)	2,154,819
Balance - December 31, 2017		102,857,974	8,257,036	413,539	1,257,732	(1,783)	(4,845,724)	5,080,800
Acquisition of H.I. Next Inc.	5(b)	19,500,000	3,207,407	-	-	-	-	3,207,407
Acquisition of Clarity Healthcare Solutions	5(c)	2,527,735	345,897	-	-	-	-	345,897
Acquisition of Roxy Solutions Inc.	5(d)	1,302,312	184,347	-	-	-	-	184,347
Warrants exercised	15(c)	5,376,220	1,067,699	-	(163,124)	-	-	904,575
Share based compensation	15(b)	-	-	250,610	-	-	-	250,610
Net loss and comprehensive income (loss) for the period		-	-	-	-	11,302	(749,864)	(738,562)
Balance - September 30, 2018		131,564,241	13,062,386	664,149	1,094,608	9,519	(5,595,588)	9,235,074

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

Vitalhub Corp.

Interim Condensed Consolidated Statements of Cash Flow

(Unaudited)

(in Canadian Dollars)

For the nine months ended September 30			
	Note	2018 \$	2017 \$
Cash provided by (used in)			
Operating activities			
Net loss and other comprehensive loss for the period		(749,864)	(1,368,491)
Items not affecting cash			
Depreciation of property and equipment	8	21,567	1,468
Amortization of intangible assets	9	1,031,957	-
Deferred tax recovery		(144,150)	-
Interest expense		107,538	-
Stock based compensation		250,610	87,199
Net change in non-cash working capital	17	(1,756,078)	(470,958)
Cash (used in) operating activities		(1,238,420)	(1,750,782)
Investing activities			
Purchase of property and equipment	8	(208,458)	(5,722)
Acquisition of subsidiaries (net of cash acquired)	5	(357,275)	-
Cash (used in) investing activities		(565,733)	(5,722)
Financing activities			
Principal payments on promissory note		-	(14,189)
Principal payments on loans payable		(619,739)	-
Proceeds from brokered private placement - net		-	2,856,521
Proceeds from exercise of warrants		904,575	-
Cash provided by (used in) financing activities		284,836	2,842,332
Effect of foreign currency on cash		11,302	-
(Decrease) increase in cash during the period		(1,508,015)	1,085,828
Cash - Beginning of the period		4,543,281	1,143,370
Cash - End of the period		3,035,266	2,229,198
Supplemental disclosures			
Interest paid		229,625	764
Customer option proceeds remitted to vendor through contingent consideration		1,566,178	-

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

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

1 Description of business

Vitalhub Corp. and its subsidiaries (the “Company” or “Vitalhub”) develop and support mission-critical healthcare information systems in the mental health, long term care, community health service and hospital sectors. The technologies include blockchain, mobile and web-based assessment and electronic healthcare record solutions.

Vitalhub Corp. has five subsidiaries: B Sharp Technologies Inc., B Sharp Lanka (PVT) Ltd., H.I.Next Inc., H.I.Next LLC, and Roxy Software Inc. all with 100% ownership.

The Company’s shares trade on the TSXV Venture Exchange under the symbol “VHI”. The Company is incorporated and domiciled in Canada. The address of its registered office is 480 University Avenue, Suite 1001, Toronto, Ontario, M5G 1V2.

2 Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as set out in the Handbook of Canadian Professional Accountants Canada (“CPA Canada Handbook”). These condensed interim consolidated financial statements are presented in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. The disclosures contained in these unaudited interim condensed consolidated financial statements do not contain all requirements of IFRS for annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017.

3 Summary of significant accounting policies

Except for the adoption of IFRS 9 and 15, the accounting policies applied in these unaudited interim condensed consolidated financial statements are consistent with those disclosed in Note 4 to the annual consolidated financial statements for the year ended December 31, 2017.

Revenue Recognition

Revenue represents the fair value of consideration received or receivable from customers for goods and services provided by the Company, net of discounts and sales taxes. The Company generates revenue from the sale of perpetual and annual renewable software licenses, maintenance and support, professional services and other miscellaneous income. Certain agreements provide for the delivery of application software and continuing post contract services, such as maintenance and support for the application software sold.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

a) Perpetual software licenses

The Company sells software licenses on a perpetual basis accounted for as sales of products. Revenue from the license of distinct software is recognized at the time that the customer has a perpetual right to use the software freely and the Company has no remaining obligations to perform after delivery of the software. The revenue from these products is recognized when the Company has transferred control to the customer. These conditions generally are met when the application software has been delivered.

b) Annual renewable software licenses

Annual renewable software licenses include the right to use the software for a year, technical support and maintenance services. These agreements are accounted for as royalties, as the customer only has the right to use the software for a specified period of time. These services are similar in substance to a subscription, as the Company does not sell one-year licences without technical support and maintenance services, and the revenue is recognized rateably over the term of the agreement from the date the licence term commences.

c) Post contract maintenance and support

Post contract maintenance and support revenue consists of fees charged for customer support on software post-delivery. These arrangements include an indeterminable number of acts with revenue from post contract services being recognized rateably over the term of arrangement.

Revenue from software-as-a-service (“SaaS”) arrangements, which allows customers to use hosted software over a term without taking possession of the software, are provided on a subscription basis. Revenue from the SaaS subscription, which includes the hosted software and maintenance is recognized rateably over the term of the subscription.

d) Consulting and professional services

Consulting and professional services revenue includes installation, implementation, training and customization of software which is recognized by the stage of completion of the performance obligation determined using the percentage of completion method based either on the achievement of contractually defined milestones or based on labour hours.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

e) Other income

Other income consists of miscellaneous income such as grants and interest income which is recognized when received.

In addition, other income includes revenue related to customer reimbursement of travel related expenses incurred during a project implementation. Revenue is recognized as costs are incurred which is consistent with the period in which the costs are invoiced.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in other receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

New Standards adopted as of January 1, 2018

IFRS, 15 Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers replaces the guidance in IAS 18 - Revenue and IAS 11 - Construction Contracts. The standard contains a single model that applies to contracts with customers. The model features a contract-based five step analysis of transactions to determine the nature, amount, and timing of revenue and cash flows arising from an entity's contract with a customer, regardless of the type of revenue transaction or the industry.

The adoption of this standard on January 1, 2018 by the Company had no impact on the previously reported assets, liabilities and net assets of the Company, and accordingly; no adjustments have been recorded in the comparative interim condensed consolidated financial statements.

IFRS, 9 Financial Instruments

The Company has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018.

IFRS 9 contains three principle classifications for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL") and eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Classification of financial assets under IFRS 9 is generally based on business model and its contractual cash flow characteristics.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

3 Summary of significant accounting policies (continued)

IFRS 9 Financial Instruments (continued)

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model and applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI.

IFRS 9 does not apply to investments under equity instruments where IAS 39 still applies. Under the ECL model, credit losses are recognised earlier under IFRS 9 when compared to IAS 39. Adoption of IFRS 9 did not change the Company's accounting policies for financial liabilities.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018. Adoption of IFRS 9 did not change the carrying value of the Company's financial assets and liabilities.

Financial asset/liability	Original classification under IAS 39	New classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Customer option receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Contingent consideration	Other financial liabilities	Amortized cost

In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The Company has adopted IFRS 9 retrospectively, and the adoption of IFRS 9 did not result in any transition adjustments being recognized as at January 1, 2018.

The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ended December 31, 2018.

Financial assets and liabilities

Financial assets are initially measured at fair value. On initial recognition, the Company classifies its financial assets at either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"), depending on its business model and its contractual cash flow characteristics.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

3 Summary of significant accounting policies (continued)

IFRS, 9 Financial Instruments (continued)

Financial assets are not reclassified after initial recognition unless the Company changes its business model for managing financial assets. A financial asset is measured at amortized cost if it meets both of the following conditions: a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Adoption of IFRS 9 did not change the Company's accounting policies for financial liabilities.

Impairment of financial assets

The Company has applied a simplified approach to providing for expected credit losses permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of accounts and customer options receivables. Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due under the contract and actual cash flows that the Company expects to receive. The expected cash flows reflect all available information, including the Company's historical experience, the past due status, and forward-looking economic factors.

Expected credit losses were calculated by applying a historical loss rate of accounts and customer option receivables to the balance on the reporting date less balances that had already been provided for. The calculated incremental loss allowance was determined to be immaterial therefore no adjustments have been made on adoption of IFRS 9.

While cash and cash equivalents are also subject to the requirements of IFRS 9, the Company has determined that the credit risk of these financial instruments has not increased significantly since initial recognition and impairment losses were determined to be immaterial.

4 Significant accounting judgments and estimation uncertainties

The preparation of financial statements requires management to use judgment, estimates and assumptions in applying its accounting policies and in determining the amounts reported in the interim condensed consolidated financial statements. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

The accounting policies, significant accounting judgments and estimations used in the preparation of these interim condensed consolidated financial statements were the same as those used in preparing the annual consolidated financial statements for the year ended December 31, 2017.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

5 Business acquisitions

a) Acquisition of B Sharp Technologies

On October 5, 2017, pursuant to an acquisition agreement the Company acquired all of the issued and outstanding securities of B Sharp Technologies Inc. and B Sharp Lanka (PVT) Ltd. ("B Sharp"). B Sharp develops and deploys client case management and electronic documentation solutions for healthcare, social services, and community care organizations. B Sharp also has software development operations in Sri Lanka.

The following table summarizes the fair value of consideration paid on the acquisition date and the allocation of the purchase price to the assets and liabilities acquired.

Purchase consideration	\$
Cash	1,839,700
Issued shares	1,367,044
<hr/>	
Total purchase price	3,206,744
<hr/>	
Allocated to identifiable assets acquired and liabilities assumed	
Accounts receivable	343,178
Prepaid expenses	38,873
Property and equipment	45,070
Bank indebtedness	(54,038)
Accounts payable and accrued liabilities	(286,945)
Loan payable	(194,488)
Deferred revenue	(294,885)
Deferred tax liability	(85,500)
Allocated to intangible assets and goodwill	
Customer relationships	1,675,000
Acquired technology	397,000
Goodwill	1,623,479
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Total allocated	3,206,744
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Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

5 Business acquisitions (continued)

b) Acquisition of H.I. Next Inc.

On January 10, 2018, pursuant to an acquisition agreement the Company acquired all of the issued and outstanding securities of H.I.Next Inc. and H.I.Next LLC. ("HI Next"). HI Next provides TREAT, a Web-based EHR and care coordination platform built for health care providers.

Pursuant to the agreement, the HI Next business was acquired with a payment of initial cash consideration, the issuance of share capital and additional contingent consideration with an estimated fair value of \$3,378,599.

The contingent consideration is to be paid over a two-year period by a customer of HI Next who exercised an option following closing of the acquisition which grants such customer a nonexclusive, transferable, perpetual, irrevocable, worldwide and royalty free license of the HI Next software. The additional consideration is contingent upon the customer making such payments over the next two years with the last payment due and payable on December 31, 2019.

The contingent consideration has been recorded as a customer option receivable and a contingent consideration liability on the interim condensed consolidated statements of financial position at its estimated fair value. As at September 30, 2018, the fair value of the customer option receivable and contingent consideration liability was \$1,957,907, which reflects the initial value on closing less the cash payments made, accretion in the period and month end foreign exchange adjustments.

During the nine month period ended September 30, 2018, the customer has made the first four payments totalling \$1,214,136 US (\$1,566,178 CAD). During the three and nine months ended September 30, 2018, accretion expense was \$12,183 and \$26,770 (2017 - \$nil).

The following table summarizes the fair value of consideration paid on the acquisition date and the allocation of the purchase price to the assets and liabilities acquired. In accordance with the Company's accounting policy and IFRS, the Company has up to one-year following the acquisition date to finalize the accounting for a business combination. Accordingly, the accounting for the HI Next acquisition has been completed using provisional amounts within these unaudited interim condensed consolidated financial statements.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

5 Business acquisitions (continued)

b) Acquisition of H.I. Next Inc. (continued)

Purchase consideration	\$
Cash	297,476
Issued shares	3,207,407
Fair value of contingent consideration	3,378,599
Total purchase price	6,883,482
Allocated to identifiable assets acquired and liabilities assumed	
Cash	230,749
Accounts receivable	1,376,102
Prepaid expenses	120,189
Property and equipment	27,403
Bank indebtedness	(134,446)
Accounts payable and accrued liabilities	(581,436)
Loans payable	(832,683)
Deferred revenue	(666,936)
Deferred tax liability	(1,206,000)
Allocated to intangible assets and goodwill	
Customer relationships	4,371,000
Acquired technology	542,000
Goodwill	3,637,540
Total allocated	6,883,482

During the nine month period ended September 30, 2018, the Company incurred \$84,480 in acquisition, restructuring and related costs with this acquisition. These costs are included and separately disclosed in the interim condensed consolidated statements of operations and comprehensive loss.

The acquisition of HI Next resulted in revenue of \$4,521,227 and net income of \$2,579,232 which is included in the Company's results for the nine month period ended September 30, 2018.

c) Acquisition of Clarity HealthCare Solutions assets

On January 19, 2018, the Company completed the purchase of select assets of Clarity Healthcare Solutions. ("Clarity"), pursuant to an acquisition agreement dated January 17, 2018. Clarity develops and deploys a web-based interface and data entry solution to perform in-patient assessments for long-term care providers.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

5 Business acquisitions (continued)

c) Acquisition of Clarity HealthCare Solutions assets (continued)

The following table summarizes the fair value of consideration paid on the acquisition date and the allocation of the purchase price to the assets and liabilities acquired. In accordance with the Company's accounting policy and IFRS, the Company has up to one-year following the acquisition date to finalize the accounting for a business combination. Accordingly, the accounting for the Clarity acquisition has been completed using provisional amounts within these unaudited interim condensed consolidated financial statements.

Purchase consideration	\$
Issued shares	345,897
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Total purchase price	345,897
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Allocated to identifiable assets acquired and liabilities assumed	
Accounts receivable	25,797
Deferred revenue	(24,380)
Allocated to intangible assets and goodwill	
Customer relationships	210,000
Acquired technology	39,000
Goodwill	95,480
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Total allocated	345,897
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During the nine month period ended September 30, 2018, the Company incurred \$4,000 in acquisition, restructuring and related costs with this acquisition. These costs are included and separately disclosed in the interim condensed consolidated statements of operations and comprehensive loss.

The acquisition of Clarity resulted in revenue of \$135,574 which is included in the Company's results for the nine month period ended September 30, 2018.

d) Acquisition of Roxy Solutions Inc.

On September 28, 2018, pursuant to an acquisition agreement, the Company acquired all of the issued and outstanding securities of Roxy Software Inc. (Roxy). Roxy provides a web-based software solution that helps manage programs, workload, and data more effectively.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

5 Business acquisitions (continued)

d) Acquisition of Roxy Solutions Inc. (continued)

The following table summarizes the fair value of consideration paid on the acquisition date and the allocation of the purchase price to the assets and liabilities acquired. In accordance with the Company's accounting policy and IFRS, the Company has up to one-year following the acquisition date to finalize the accounting for a business combination. Accordingly, the accounting for the Roxy acquisition has been completed using provisional amounts within these unaudited interim condensed consolidated financial statements.

Purchase consideration	\$
Cash	319,900
Issued shares	184,347
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Total purchase price	504,247
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Allocated to identifiable assets acquired and liabilities assumed	
Cash	29,352
Accounts receivable	25,493
Income taxes recoverable	6,871
Accounts payable and accrued liabilities	204
Deferred revenue	(66,690)
Deferred tax liability	(76,850)
Allocated to intangible assets and goodwill	
Customer relationships	240,000
Acquired technology	50,000
Goodwill	295,867
<hr/>	
Total allocated	504,247
<hr/>	

The acquisition of Roxy did not result in any revenue or expenses for the nine month period ended September 30, 2018, due to the timing of closing.

The Company's acquisitions serve to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

6 Cash

The Company has an agreement with the Royal Bank of Canada ("RBC") to provide a \$300,000, revolving demand facility, bearing interest at RBC's prime rate plus 1%. The aggregate borrowings outstanding by way of letters of credit and letters of guarantee cannot exceed \$75,000 at any time. The facility is secured by a general security agreement with a first ranking security interest over all property of the Company and guarantees and postponements of claim from the Company and subsidiaries of the Company.

The Company has a second agreement with RBC to provide a \$300,000 revolving demand facility, bearing interest at RBC's prime rate plus 3%. The facility is secured by a general security agreement with a first ranking security interest over all property of the Company and guarantees and postponements of claim from the Company and subsidiaries of the Company.

As at September 30, 2018 and December 31, 2017, no amounts have been drawn on the credit facilities.

7 Accounts receivable

	September 30 2018 \$	December 31 2017 \$
Trade accounts receivable	750,115	328,457
Other receivable	8,619	48,438
Expected credit loss provision	(118,781)	-
	639,953	376,895

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

8 Property and equipment

	Computers \$	Furniture and Fixtures \$	Leasehold Improvements \$	Total \$
Net book value - December 31, 2017	43,481	3,555	11,025	58,061
Acquisition of HI Next	23,824	3,579	-	27,403
Additions	19,366	165,933	23,159	208,458
Depreciation for the period	(17,181)	(1,784)	(2,602)	(21,567)
Net book value - September 30, 2018	69,490	171,283	31,582	272,355
Net book value - December 31, 2016	-	364	-	364
Acquisition of B Sharp	30,930	2,289	11,851	45,070
Additions	14,600	2,387	-	16,987
Depreciation for the period	(2,049)	(1,485)	(826)	(4,360)
Net book value - December 31, 2017	43,481	3,555	11,025	58,061

9 Intangible assets

	Note	Acquired Technologies \$	Customer Relationships \$	Total \$
Net book value - December 31, 2017		382,821	1,645,089	2,027,910
Additions through acquisitions	5	631,000	4,821,000	5,452,000
Amortization for the period		(105,618)	(926,339)	(1,031,957)
Net book value - September 30, 2018		908,203	5,539,750	6,447,953
Net book value - December 31, 2016		-	-	-
Additions through acquisitions		397,000	1,675,000	2,072,000
Amortization for the period		(14,179)	(29,911)	(44,090)
Net book value - December 31, 2017		382,821	1,645,089	2,027,910

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

10 Accounts payable and accrued liabilities

	September 30 2018	December 31 2017
Note	\$	\$
Trade accounts payable and accrued liabilities	544,858	571,134
Accrued payroll and related compensation	684,360	139,855
Government remittances	156,694	207,820
Royalties payable	96,184	43,124
	1,482,096	961,933

11 Share purchase agreement

On May 2, 2016 all of the outstanding shares of Vitalhub were purchased by 2514987 Ontario Inc., an arm's length corporation incorporated in the Province of Ontario (the "Corporation"). In addition, the Corporation purchased one-hundred percent (100%) of the Company's outstanding indebtedness to the two primary shareholders (the "Creditors") in exchange for:

- a) 25% of the amount net of expenses to be paid to Vitalhub under a Scientific Research and Experimental Development ("SR&ED") tax incentive claim. The total SR&ED claim submitted to date was \$508,840 which includes claims for the fiscal years 2014 and 2015; accordingly. After an audit from the Canada Revenue Agency, the 2014 SR&ED claim was disallowed, as a result the Company will subsequently recognize the claim when it is received in addition to the applicable amounts payable to the Creditors. Management is of the opinion that the claim in 2014 is valid and is appealing the audit decision.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

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11 Share purchase agreement (continued)

b) Royalty streams to be paid to the Creditors are as follows:

- i) 0% of the Net Revenue received by Vitalhub pursuant to the agreement with Provincial Health Services Association (“BC Agreement”) during the period commencing January 1, 2016 and ending December 31, 2016;
- ii) 17.5% of the Net Revenue received by Vitalhub pursuant to the BC Agreement during the period commencing January 1, 2017 and ending December 31, 2019, with such amount being payable within ninety (90) days following December 31, 2019;
- iii) 12.5% of the Net Revenue received by Vitalhub pursuant to the BC Agreement during the period commencing January 1, 2020 and ending December 31, 2021, with such amount being payable within ninety (90) days following December 31, 2021;
- iv) 6.5% of the Net Revenue received by Vitalhub other than pursuant to the BC Agreement during the four-year period commencing on May 2, 2016, with such amounts being payable in four installments annually.

During the period commencing May 2, 2016 to December 31, 2016 the Company did not earn the applicable Net Revenues. During the period January 1, 2017 to September 30, 2018 the Company earned \$480,000 of Net Revenues pursuant to the BC agreement and accordingly the Company has accrued \$84,000 of royalties in accounts payable and accrued liabilities.

12 Royalties payable

On May 30, 2017, the Company entered into a revenue and cost sharing agreement with one of its customers on a co-designed solution. Under the terms of the agreement, license and maintenance revenue earned by the solution will be shared 90% to the Company and 10% to the customer up to the point where the customer has received a total of \$1,000,000 in gross revenues, after which revenue sharing will continue at 2% of ongoing revenues to the customer indefinitely.

As at September 30, 2018, the Company has accrued \$3,290 (December 31, 2017 - \$1,124) of royalties in accounts payable and accrued liabilities.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

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13 Loans payable

	Note	September 30 2018 \$	December 31 2017 \$
RBC Business Loan	(a)	79,447	-
Business Development Bank of Canada Loan	(b)	155,520	184,680
The Health Technology Exchange Loan	(c)	297,103	-
		532,070	184,680
Less: Current portion		362,212	38,880
Non-current portion		169,858	145,800
Future principal repayments are as follows:			
	2018	362,212	38,880
	2019	92,098	38,880
	2020	38,880	38,880
	2021	38,880	38,880
	2022	-	29,160
		532,070	184,680

- a) The RBC loan bears interest at RBC's prime rate plus 3% and is due October 31, 2019. The loan is repayable in monthly installments of principal of \$6,111 plus interest, beginning Nov 30, 2016.

The loan is secured by a general security agreement with a first ranking security interest over all property of the Company, guarantees and postponements of claim by the Company and subsidiaries of the Company, and a guarantee and postponement of claim by the Health Technology Exchange ("HTX").

- b) The Business Development Bank of Canada ("BDC") Loan bears interest at BDC's floating base rate plus 3% and is due September 30, 2022. The loan is repayable in 1 monthly installment of principal of \$3,328 and 59 monthly installments of principal of \$3,240 plus interest, beginning October 31, 2017. The loan is secured by a general security agreement with a second ranking security interest over all property of the Company.

- c) The Health Technology Exchange loan is unsecured and repayable in accordance with the payment plan stipulated in the agreement, to a maximum principal amount of \$380,372, plus accrued interest of \$64,730. The loan matures October 31, 2019.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the Three and Nine Months Ended September 30, 2018

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14 Debentures

On December 7, 2017, the Company issued debentures of \$2,219,000 at a price of \$100 per debenture with a maturity date of December 7, 2020. Purchasers of the debentures also received common shares of the Company equal to 20% of the face value of the debenture, divided by \$0.15 for a total issuance of 2,951,270 bonus shares. The debentures bear interest at 12% per annum, payable semi-annually in arrears on June 30th and December 31st, with the first interest payment being made on December 31, 2017. Beginning one year after the date of issue, the Company has the right to redeem the debentures then outstanding, in whole or in part, at a premium of 5% to the face value of the debentures.

The Company paid agent fees and cash commissions of \$153,405, incurred other issuance costs of \$69,537 and issued 1,022,700 compensation warrants to the agents. Each warrant is exercisable into one common share of the Company at a price of \$0.18 for a period of up to two years from the date of issue.

As the debentures are considered to be a compound financial instrument, the liability component and the equity components (the conversion right) are presented separately, as determined at the date of issue, using the residual method. The liability component of \$1,615,705 was determined by discounting the future stream of interest and principal repayments at the prevailing market rate of 20% for a comparable liability that does not have an associated equity component. The balance of \$296,376 was allocated to the equity component and is included in shareholders' equity in the Company's interim condensed consolidated statements of financial position.

The following table summarizes information about the Company's debentures as at September 30, 2018:

	Liability component \$	Equity component \$	Total \$
Present value of debentures issued	1,615,705	296,376	1,912,081
Accretion for the period from inception	10,437	-	10,437
Balance - December 31, 2017	1,626,142	296,376	1,922,518
Accretion for the period	118,781	-	118,781
Balance - September 30, 2018	1,744,923	296,376	2,041,299

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the Three and Nine Months Ended September 30, 2018

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15 Share capital

a) Authorized share capital

The authorized share capital of the Company consists of an unlimited number of common shares with no par value.

b) Share based compensation and share based payment reserve

A summary of changes in share-based compensation during the periods ended September 30, 2018 and 2017 is as follows:

	September 30, 2018		December 31, 2017	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding - beginning of the period	8,247,741	0.130	1,857,741	0.100
Share options granted in the period	3,875,000	0.166	6,590,000	0.138
Share options forfeited in the period	(100,000)	0.150	(200,000)	0.120
Balance - end of the period	12,022,741	0.141	8,247,741	0.130
Exercisable - end of the period	6,665,441	0.127	5,574,228	0.118

The following table summarizes information about the Company's share options outstanding at September 30, 2018:

Exercise price	Number outstanding	Weighted average contractual life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
0.100	1,857,741	2.18	0.100	1,857,741	0.100
0.120	1,365,000	3.28	0.120	1,214,995	0.120
0.125	1,325,000	2.83	0.125	1,301,040	0.125
0.130	1,500,000	4.02	0.130	1,500,000	0.130
0.150	2,250,000	4.58	0.150	-	0.150
0.165	2,200,000	4.16	0.165	791,665	0.165
0.180	550,000	4.91	0.180	-	0.180
0.195	975,000	4.26	0.195	-	0.195
	12,022,741	3.71	0.141	6,665,441	0.127

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

15 Share capital (continued)

b) Share based compensation and share based payment reserve (continued)

During the nine months ended September 30, 2018, 3,875,000 (September 30, 2017 - 1,565,000) share options with a weighted average aggregate fair value of \$307,417 (975,000 at \$0.195 per option, 550,000 at \$0.18 per option and 2,350,000 at \$0.15 per option) at the date of grant (September 30, 2017 - \$119,185) were issued to directors, employees and non-employees.

The fair value of the share options granted during 2018 were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Jan 3 2018	May 4 2018	Aug 27 2018
Share price (\$)	0.195	0.135	0.180
Exercise price (\$)	0.195	0.150	0.180
Risk-free interest rate (%)	1.57%	1.97%	2.16%
Expected volatility (%)	60.0%	60.0%	60.0%
Expected life (in years)	5	5	5
Expected dividends	\$nil	\$nil	\$nil

The computation of expected volatility was based on the historical volatility of comparable companies from a representative group of publicly traded software companies.

During the three and nine months ended September 30, 2018 share-based compensation expense was \$140,609 and \$250,610 (2017 - \$3554 and \$87,199).

The 3,875,000 options granted in 2018 vest equally 1/36 per month commencing from the date the options were granted and are exercisable one year after the date on which the options were granted.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

15 Share capital (continued)

c) Warrants

A summary of changes in warrants during the periods ended September 30, 2018 and 2017 is as follows:

	September 30, 2018		December 31, 2017	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Outstanding - beginning of the period	53,016,379	0.176	6,902,358	0.143
Warrants exercised in the period	(5,376,220)	0.168	-	-
Warrants expired in the period	-	-	(500,000)	0.100
Warrants granted in the period	-	-	46,614,021	0.180
Balance - end of the period	47,640,159	0.177	53,016,379	0.176
Exercisable - end of the period	47,640,159	0.177	53,016,379	0.176

The following table summarizes information about the Company's warrants outstanding at September 30, 2018:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
0.110	455,937	0.162	0.110	455,937	0.110
0.150	4,072,926	0.154	0.150	4,072,926	0.150
0.180	43,111,296	1.015	0.180	43,111,296	0.180
	47,640,159	0.933	0.177	47,640,159	0.177

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Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

15 Share capital (continued)

d) Shares held in escrow

The escrow agreement relating to the reverse takeover transaction completed on November 28, 2016 provides share release equal to 10% upon completion of the initial public offering and listing on the TSXV Venture with the remaining shares to be released 15% six months following the initial release and 15% every six months thereafter until fully released.

The escrow agreement relating to the acquisition of B Sharp completed on October 5, 2017 provides share release to the former shareholders in six equal consecutive semi-annual distributions, the first of such distributions to occur on the six-month anniversary of the closing date of the acquisition. The portion of the share purchase price allocated to a third shareholder will be released in four equal consecutive semi-annual distributions, the first of such distributions to occur on the six-month anniversary of the closing date of the acquisition.

The escrow agreement relating to the acquisition of HI Next completed on January 10, 2018 provides share release to the former shareholders bi-annually in six equal amounts over the period of three years beginning with the date that is six months after the date of closing.

The escrow agreement relating to the acquisition of Clarity completed on January 19, 2018 provides share release to the former shareholder in four equal amounts over the period of twelve months beginning with the date that is three months after the date of closing.

The escrow agreement relating to the acquisition of Roxy completed on September 28, 2018 provides share release to the former shareholder in four equal amounts over the period of twelve months beginning with the date that is three months after the date of closing.

As of September 30, 2018, a total of 36,847,204 (2017 – 24,655,723) shares remain in escrow.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

16 Net loss per share

Basic and diluted

Basic and diluted loss per share is calculated by dividing the net loss attributable to the Company by the weighted average number of common shares outstanding during the year.

	For the three months ended September 30		For the nine months ended September 30	
	2018 \$	2017 \$	2018 \$	2017 \$
Net loss for the period	\$ (293,434)	\$ (563,486)	\$ (749,864)	\$ (1,368,491)
Weighted average shares	130,259,755	41,110,405	126,280,649	36,693,797
Net basic and diluted loss per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.04)

17 Statements of cash flow

Components of the net change in non-cash working capital for the nine months ended September 30, 2018 and 2017 are as follows:

	For the nine months ended September 30	
	2018 \$	2017 \$
Increase (decrease) in current assets		
Financing proceeds held in escrow	-	(1,000,000)
Accounts receivable	1,164,334	220,700
Customer option receivable	(3,367,356)	-
Prepaid expenses	28,934	(111,338)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	(61,069)	437,082
Payable to investors	-	35,000
Deferred revenue	479,079	(52,402)
	(1,756,078)	(470,958)

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018

(in Canadian Dollars)

18 Segmented information

The Company has identified one operating segment for its operations, the sale of healthcare information systems in the mental health, long-term care, community health service and hospital sectors. The Company's sales are all in Canada and the United States, with substantially all of the Company's identifiable assets as at September 30, 2018 being located in Canada.

19 Comparatives

Certain operating expenses on the statements of operations and comprehensive income (loss) have been reclassified to conform to the presentation adopted in the current period. The resulting reclassification has no effect on the net assets of the Company.

20 Key management compensation

	For the three months ended September 30		For the nine months ended September 30	
	2018 \$	2017 \$	2018 \$	2017 \$
Salaries, short-term employee benefits and consulting fees	136,750	59,795	359,879	179,385
Stock-based compensation	26,718	-	149,865	32,000
	163,468	59,795	509,744	211,385