

Vitalhub Corp.

**Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2020 and 2019**

Vitalhub Corp.

For the Three and Six Months Ended June 30, 2020 and 2019

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Vitalhub Corp.

Interim Condensed Consolidated Statements of Financial Position

As at June 30, 2020 and December 31, 2019

(Unaudited)

(in Canadian Dollars)

	June 30, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash (Note 5)	15,940,208	1,995,691
Accounts receivable (Note 6)	3,563,277	1,773,595
Income taxes recoverable	7,078	7,232
Lease receivable	20,440	29,335
Prepaid expenses	241,630	243,042
	19,772,633	4,048,895
Non-current assets		
Property and equipment (Note 7)	302,718	329,774
Intangible assets (Note 8)	6,813,126	7,699,601
Right-of-use assets (Note 15)	684,573	791,419
Lease receivable	-	5,225
Goodwill (Note 9)	11,269,807	11,269,807
	38,842,857	24,144,721
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	2,059,853	2,264,909
Loans payable (Note 13)	401,430	418,155
Contingent consideration (Note 4)	436,106	502,830
Lease liabilities (Note 15)	166,541	207,435
Deferred revenue	3,503,144	2,217,414
	6,567,074	5,610,743
Long term liabilities		
Loans payable (Note 13)	994,797	1,196,159
Lease liabilities (Note 15)	582,937	654,989
	8,144,808	7,461,891
Shareholders' equity		
Share capital (Note 14 (b))	34,712,561	20,371,853
Share-based payment reserve (Note 14 (c))	920,067	933,616
Warrant reserve (Note 14 (d))	990,032	917,752
Accumulated other comprehensive income	2,584	1,813
Deficit	(5,927,195)	(5,542,204)
	30,698,049	16,682,830
	38,842,857	24,144,721

Approved by the Board

(Signed) Dan Matlow

Director

(Signed) Barry Tissenbaum

Director

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

Vitalhub Corp.

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Revenue				
Term licences, maintenance and support	1,848,889	1,271,422	3,645,783	2,452,172
Perpetual licences	150,000	417,225	739,504	559,754
Services and other	750,006	1,138,644	1,133,608	2,259,676
Total revenue	2,748,895	2,827,291	5,518,895	5,271,602
Cost of sales	741,550	741,413	1,646,357	1,416,889
Gross profit	2,007,345	2,085,878	3,872,538	3,854,713
Expenses				
General and administrative	636,188	658,367	1,339,470	1,233,829
Sales and marketing	189,296	215,214	462,791	373,557
Research and development	425,497	676,408	1,133,056	1,049,669
Depreciation (Note 7)	26,675	21,368	53,363	40,676
Depreciation of right-of-use assets (Note 15)	53,386	48,939	106,846	97,631
Stock based compensation (Note 14 (c))	41,702	46,608	87,773	82,480
Foreign currency loss (gain)	2,102	(16,636)	(99,329)	(39,971)
	1,374,846	1,650,268	3,083,970	2,837,871
Income before the undernoted items	632,499	435,610	788,568	1,016,842
Amortization of intangible assets (Note 8)	443,238	390,169	886,475	727,836
Business acquisition, restructuring and integration costs (Note 4)	6,659	168,808	255,567	222,170
Interest expense and accretion (net of interest income)	(15,698)	111,851	9,269	227,932
Interest income from sublease	(570)	(666)	(1,299)	(1,156)
Interest expense from lease liabilities	19,403	18,883	40,281	28,868
Loss on right-of-use assets and lease liabilities (Note 15)	-	-	-	27,869
Loss on disposal of property and equipment (Note 7)	-	-	-	470
	453,032	689,045	1,190,293	1,233,989
Income (loss) before income taxes	179,467	(253,435)	(401,725)	(217,147)
Provision for income taxes				
Current	-	-	(16,734)	2,941
Deferred	-	(41,400)	-	(69,600)
	-	(41,400)	(16,734)	(66,659)
Net income (loss)	179,467	(212,035)	(384,991)	(150,488)
Other comprehensive loss (gain)				
Foreign currency translation gain (loss)	(11,659)	(7,142)	771	(24,840)
Comprehensive (loss) gain	167,808	(219,177)	(384,220)	(175,328)
Earnings per share				
Basic	0.01	(0.01)	(0.02)	(0.01)
Diluted	0.01	(0.01)	(0.02)	(0.01)
Weighted average number of shares outstanding				
Basic	26,615,860	15,989,469	23,028,807	15,597,954
Diluted	26,723,409	15,989,469	23,028,807	15,597,954

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

Vitalhub Corp.

Interim Condensed Consolidated Statements of Shareholders' Equity

For the six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

	Number of common shares	Share capital \$	Share-based payment reserve \$	Warrant reserve \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total shareholders' equity \$
Balance, December 31, 2018	13,427,498	13,549,980	727,270	937,548	54,848	(5,648,990)	9,620,656
Non-brokered private placement (Note 14 (b))	2,062,500	2,391,931	-	893,164	-	-	3,285,095
Acquisition of The Oak Group (UK) Limited (Note 4 (a))	403,268	728,014	-	-	-	-	728,014
Warrants exercised (Note 14 (d))	93,500	183,530	-	(15,230)	-	-	168,300
Stock options exercised (Note 14 (c))	3,000	4,936	(1,336)	-	-	-	3,600
Stock based compensation (Note 14 (c))	-	-	82,480	-	-	-	82,480
Net (loss) and comprehensive (loss) for the period	-	-	-	-	(24,840)	(150,488)	(175,328)
Balance, June 30, 2019	15,989,766	16,858,391	808,414	1,815,482	30,008	(5,799,478)	13,712,817
Balance, December 31, 2019	18,017,912	20,371,853	933,616	917,752	1,813	(5,542,204)	16,682,830
Shares issued from financing (Note 14 (b))	8,506,300	14,077,511	-	72,280	-	-	14,149,791
Stock options exercised (Note 14 (c))	147,500	263,197	(101,322)	-	-	-	161,875
Stock based compensation (Note 14 (c))	-	-	87,773	-	-	-	87,773
Net (loss) and comprehensive income for the period	-	-	-	-	771	(384,991)	(384,220)
Balance, June 30, 2020	26,671,712	34,712,561	920,067	990,032	2,584	(5,927,195)	30,698,049

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

Vitalhub Corp.

Interim Condensed Consolidated Statements of Cash Flows

For the six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$
Operating activities		
Net loss	(384,991)	(150,488)
Adjustments for:		
Depreciation of property and equipment (Note 7)	53,363	40,676
Amortization of intangible assets (Note 8)	886,475	727,836
Depreciation of right-of-use assets (Note 15)	106,846	97,631
Loss on right-of-use assets and lease liabilities	-	27,869
Unrealized foreign exchange gain (loss)	(5,158)	30,518
Loss on disposal of property and equipment (Note 7)	-	774
Deferred tax recovery	-	(69,600)
Interest and accretion expense (net of interest income)	-	69,894
Interest expense from lease liabilities (Note 15)	40,281	28,868
Stock based compensation (Note 14 (c))	87,773	82,480
Operating income before changes in working capital	784,589	886,458
Changes in working capital		
Accounts receivable	(1,789,682)	(49,668)
Customer option receivable	-	876,413
Lease receivable	14,120	13,400
Prepaid expenses	1,412	8,270
Accounts payable and accrued liabilities	(205,056)	(254,766)
Contingent consideration	(66,724)	(989,597)
Deferred revenue	1,285,730	82,965
Income taxes recoverable (payable)	154	(19,566)
	24,543	553,909
Investing activities		
Purchase of property and equipment (Note 7)	(26,307)	(35,714)
Acquisition of Oak Group (net of cash acquired) (Note 4 (a))	-	(606,690)
	(26,307)	(642,404)
Financing activities		
Principal payments on loans payable (Note 13)	(218,087)	(198,907)
Principal payments on related party loans (Note 4 (a))	-	(955,648)
Principal payments on lease liabilities (Note 15)	(153,227)	(104,497)
Proceeds from issuance of shares - net of issuance costs (Note 14 (b))	14,149,791	-
Proceeds from non-brokered private placement - net (Note 14 (b))	-	3,285,095
Proceeds from exercise of options (Note 14 (c))	161,875	3,600
Proceeds from exercise of warrants (Note 14 (d))	-	168,300
	13,940,352	2,197,943
Effect of foreign exchange rate changes on cash	5,929	(55,358)
Increase in cash	13,944,517	2,054,090
Cash, beginning of the period	1,995,691	2,805,993
Cash, end of the period	15,940,208	4,860,083

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

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

1. Description of business

VitalHub Corp. and its subsidiaries (the "Company") develop mission-critical technology solutions for Health and Human Services providers in the Mental Health (Child through Adult), Long Term Care, Community Health Service, Home Health, Social Service and Acute Care sectors. VitalHub technologies include Blockchain, Mobile, Patient Flow, Web-Based Assessment and Electronic Health Record solutions.

Vitalhub Corp. has four wholly owned subsidiaries: Vitalhub (PVT) Ltd., H.I.Next LLC, The Oak Group (UK) Limited., and Oculys Health Informatics Inc.

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 the Company's 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 Chartered Professional Accountants Canada ("CPA Canada Handbook"). These interim condensed consolidated financial statements are presented in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The disclosures contained in these 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, 2019. The financial statements were authorized for issue by the board of directors on November 11, 2020.

On January 3, 2020, the Company completed a 1:10 reverse stock split. The exercise price or conversion price of, and the number of common shares issuable under, any convertible securities of the Company were proportionately adjusted upon completion of the reverse stock split. References in these interim condensed consolidated financial statements to share amounts, per share data, share prices, exercise prices and conversion prices have been adjusted to reflect the 1:10 reverse stock split.

3. Summary of significant accounting policies

Except for the adoption of IFRS 3, the accounting policies applied in these unaudited interim condensed consolidated financial statements are consistent with those disclosed in Note 3 to the annual consolidated financial statements for the year ended December 31, 2019.

Amendment to IFRS 3 – Business Combinations

On October 22, 2018, the IASB issued Definition of a Business (Amendments to IFRS 3: Business Combinations). The amendments to IFRS 3 are applicable for acquisitions occurring on or after January 1, 2020 and are adopted prospectively. These amendments to the implementation guidance of IFRS 3 clarify the definition of a business to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments to IFRS 3 – Business Combinations may affect whether future acquisitions are accounted for as business combinations or asset acquisitions, along with the resulting allocation of the purchase price between the net identifiable assets acquired and goodwill. As there were no acquisitions completed subsequent to January 1, 2020, the amendments did not have any impact on the Company's interim condensed consolidated financial statements.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

4. Business acquisitions

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

a) Acquisition of The Oak Group, Inc.

On March 20, 2019, the Company acquired certain assets of The Oak Group, Inc., and all of the issued and outstanding securities of The Oak Group (UK) Limited, collectively known as ("The Oak Group"). The Oak Group provides software that helps manage the utilization of healthcare beds more effectively.

In addition, the Company has a contingent consideration in the amount of \$377,020 payable over a five-year period after the closing, which has been discounted using a risk-free rate of 18.9% and is contingent upon meeting certain revenue targets. In the event that either party exercises its rights to termination, the Company shall not be relieved of its obligations for the minimum guaranteed compensation portion and 50% of the remaining consideration in the first 5 years shall be payable.

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.

Consideration	
Cash consideration on closing	\$ 446,046
Cash held in escrow for 6 months	209,588
Issued shares (80,654 shares issued at \$2.00/share)	161,307
Issued shares held in escrow (322,614 shares issued at \$2.00/share) - discounted	566,707
Fair value of contingent consideration	377,020
	\$ 1,760,668

Purchase price allocation	
Cash	\$ 48,944
Accounts receivable	317,475
Prepays	12,257
Accounts payable and accrued liabilities	(376,168)
Deferred revenue	(536,802)
Due to related party	(955,648)
Acquired technology	240,000
Customer relationships	510,000
Brand	160,000
Goodwill	2,340,610
	\$ 1,760,668

During the three and six months ended June 30, 2020, the Company incurred \$15,339 and \$55,259 (three and six months ended June 30, 2019 - \$168,808 and \$222,170) in acquisition, restructuring and integration 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 The Oak Group resulted in revenue for the three and six months ended June 30, 2020 of \$406,753 and \$1,151,431 (three and six months ended June 30, 2019 - \$211,027 and \$248,035) and net income of \$209,589 and \$602,448 (three and six months ended June 30, 2019 - \$73,010 and \$103,858), which is included in the Company's results for three and six months ended June 30, 2020 and 2019.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

4. Business acquisitions (continued)

b) Acquisition of Oculys Health Informatics Inc.

On November 21, 2019, the Company acquired all of the issued and outstanding securities of Oculys Health Informatics Inc. ("Oculys"). Oculys provides a real-time and predictive operational management system for hospitals.

In addition, the Company has a contingent consideration payable over a three-year period after the closing and is contingent upon meeting certain revenue targets.

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 Oculys acquisition has been completed using provisional amounts within these interim condensed consolidated financial statements.

Consideration	
Cash consideration on closing	\$ 1,872,070
Cash held in escrow for 12 months	330,000
Issued shares (305,556 shares issued at \$1.75/share)	534,722
Issued shares held in escrow (916,666 shares issued at \$1.75/share) - discounted	1,395,824
Fair value of contingent consideration	15,676
	\$ 4,148,292
Purchase price allocation	
Cash	\$ 22,618
Accounts receivable	206,069
Prepays	24,885
Property and equipment	8,446
Accounts payable and accrued liabilities	(251,672)
Deferred revenue	(1,040,077)
Loans payable	(32,420)
Acquired technology	330,000
Customer relationships	1,880,000
Brand	200,000
Goodwill	2,800,443
	\$ 4,148,292

During the three and six months ended June 30, 2020, the Company incurred (\$8,680) and \$200,308 (three and six months ended June 30, 2019 - \$nil and \$nil) in acquisition, restructuring and integration 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 Oculys resulted in revenue for the three and six months ended June 30, 2020 of \$503,799 and \$966,531 (three and six months ended June 30, 2019 - \$nil and \$nil) and net income of \$198,399 and \$95,591 (three and six months ended June 30, 2019 - \$nil and \$nil), which is included in the Company's results for three and six months ended June 30, 2020 and 2019.

5. Cash

The Company has an agreement with the Royal Bank of Canada ("RBC") to provide a \$500,000, revolving demand facility, bearing interest at RBC's prime rate plus 1%. 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 subsidiaries of the Company. As at June 30, 2020 and December 31, 2019, no amounts have been drawn on this revolving demand facility.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

6. Accounts receivable

	June 30, 2020	December 31, 2019
	\$	\$
Trade accounts receivable	3,682,595	1,681,802
Other receivables	68,313	279,424
	3,750,908	1,961,226
Expected credit loss provision	(187,631)	(187,631)
Net carrying value	3,563,277	1,773,595

7. Property and equipment

	Computers	Furniture & fixtures	Leasehold improvements	Total
Cost	\$	\$	\$	\$
Balance, December 31, 2018	136,317	216,994	60,968	414,279
Acquisitions (Note 4)	6,781	995	670	8,446
Additions	65,928	10,224	2,704	78,856
Disposals	(18,879)	(47,343)	-	(66,222)
Balance, December 31, 2019	190,147	180,870	64,342	435,359
Additions	25,347	960	-	26,307
Balance, June 30, 2020	215,494	181,830	64,342	461,666
Accumulated depreciation				
Balance, December 31, 2018	64,274	23,052	5,457	92,783
Depreciation expense	26,243	40,107	10,934	77,284
Disposals	(18,880)	(45,602)	-	(64,482)
Balance, December 31, 2019	71,637	17,557	16,391	105,585
Depreciation expense	23,882	22,302	7,179	53,363
Balance, June 30, 2020	95,519	39,859	23,570	158,948
Net book value as at:				
December 31, 2019	118,510	163,313	47,951	329,774
June 30, 2020	119,975	141,971	40,772	302,718

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

8. Intangible assets

	Acquired technologies	Customer relationships	Brands	Total
Cost	\$	\$	\$	\$
Balance, December 31, 2018	1,013,000	6,247,000	-	7,260,000
Acquisitions (Note 4)	570,000	2,390,000	360,000	3,320,000
Balance, December 31, 2019	1,583,000	8,637,000	360,000	10,580,000
Balance, June 30, 2020	1,583,000	8,637,000	360,000	10,580,000
Accumulated amortization				
Balance, December 31, 2018	153,560	1,209,638	-	1,363,198
Depreciation expense	192,965	1,295,236	29,000	1,517,201
Balance, December 31, 2019	346,525	2,504,874	29,000	2,880,399
Depreciation expense	131,357	719,118	36,000	886,475
Balance, June 30, 2020	477,882	3,223,992	65,000	3,766,874
Net book value as at:				
December 31, 2019	1,236,475	6,132,126	331,000	7,699,601
June 30, 2020	1,105,118	5,413,008	295,000	6,813,126

9. Goodwill

The carrying amount of goodwill related to each entity is as follows:

	June 30, 2020	December 31, 2019
	\$	\$
B Sharp Technologies Inc.	1,623,479	1,623,479
H.I. Next Inc. and LLC	3,883,882	3,883,882
Clarity HealthCare Solutions	163,480	163,480
Roxy Solutions Inc.	457,913	457,913
The Oak Group (UK) Limited.	2,340,610	2,340,610
Oculys Health Informatics Inc.	2,800,443	2,800,443
	11,269,807	11,269,807

10. Accounts payable and accrued liabilities

	June 30, 2020	December 31, 2019
	\$	\$
Trade accounts payable and accrued liabilities	688,756	1,199,321
Accrued payroll and related compensation	1,033,462	843,825
Government remittances	202,584	119,442
Royalties payable	135,051	102,321
	2,059,853	2,264,909

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

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. 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.
- 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 March 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 March 31, 2019, with such amount being payable within ninety (90) days following March 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 March 31, 2021, with such amount being payable within ninety (90) days following March 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 January 1, 2020 to June 30, 2020, the Company earned \$nil of net revenues (January 1, 2019 – June 30, 2019 - \$192,950) pursuant to the BC agreement, accordingly the Company has accrued \$75,766 of royalties in accounts payable and accrued liabilities as at June 30, 2020 (December 31, 2019 - \$75,766).

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, 10% of license and maintenance revenue earned by the solution will be paid to the customer up to the point where the customer has received a total of \$1,000,000, after which revenue sharing will continue at 2% of ongoing revenues to the customer indefinitely.

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(in Canadian Dollars)

13. Loans payable

	Note	June 30, 2020	December 31, 2019
		\$	\$
Business Development Bank of Canada loan	(a)	87,480	106,920
RBC sale and leaseback loan	(b)	113,604	151,546
RBC non-revolving term facility	(c)	1,190,000	1,330,000
Catalyst loan	(d)	5,143	6,659
Vault loan	(e)	-	19,189
		1,396,227	1,614,314
Current portion of loans payable		401,430	418,155
Long-term portion of loans payable		994,797	1,196,159
		1,396,227	1,614,314

Future principal repayments are as follows:

2020/2021	401,430	418,155
2021/2022	355,077	396,999
2022/2023	289,720	309,160
2023/2024	280,000	280,000
2024/2025 and thereafter	70,000	210,000
	1,396,227	1,614,314

a) 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. During the three and six months ended June 30, 2020, the Company paid \$9,720 and \$19,440 (three and six months ended June 30, 2019 - \$9,720 and \$19,440) in principal and \$1,764 and \$4,042 (three and six months ended June 30, 2019 - \$2,997 and \$6,178) of interest expense.

b) The RBC sale and leaseback is secured by the assets sold which consist of leasehold improvements and furniture and fixtures to RBC and is repayable in monthly installments of principal and interest of \$6,974, commencing January 25, 2019, and matures December 27, 2021. The Company has the option to purchase the assets on the purchase date of December 26, 2021 for \$1. During the three and six months ended June 30, 2020, the Company paid \$18,835 and \$37,942 (three and six months ended June 30, 2019 - \$18,042 and \$42,801) in principal and \$1,817 and \$3,905 (three and six months ended June 30, 2019 - \$2,881 and \$6,020) in interest expense.

c) The RBC non-revolving term facility bears interest at RBC's prime rate plus 2% and is due September 25, 2024. The loan is repayable in monthly installments of principal of \$23,333 plus interest, beginning October 25, 2019. During the three and six months ended June 30, 2020, the Company paid \$70,000 and \$140,000 (three and six months ended June 30, 2019 - \$nil and \$nil) in principal and \$13,963 and \$32,436 (three and six months ended June 30, 2019 - \$nil and \$nil) in interest expense.

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.

d) The Catalyst loan is repayable in monthly installments of principal and interest of \$314, commencing January 1, 2019, with a maturity of December 1, 2021. The loan bears interest at 12.065%. During the three and six months ended June 30, 2020, the Company paid \$748 and \$1,516 (three and six months ended June 30, 2019 - \$nil and \$nil) in principal and \$173 and \$366 (three and six months ended June 30, 2019 - \$nil and \$nil) in interest.

e) The Vault loan is repayable in monthly installments of principal and interest of \$6,720, commencing April 4, 2019, with a maturity of March 4, 2020. The loan bears interest at 30.10%. During the three and six months ended June 30, 2020, the Company paid \$nil and \$19,189 (three and six months ended June 30, 2019 - \$nil and \$nil) in principal and \$nil and \$1,265 (three and six months ended June 30, 2019 - \$nil and \$nil) in interest.

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14. 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) Issued share capital

i) *Non-brokered private placement*

On January 18, 2019, the Company completed a non-brokered private placement financing under which 2,062,500 units were issued at \$1.60 per unit for total gross proceeds of \$3,300,000. Each unit comprises one common share and one half of one common share warrant with each such two year warrant being exercisable for one common share of the Company at an exercise price of \$2.90, for a period of 24 months from the date of issuance, and one half of one common share warrant with each such three year warrant being exercisable for one common share of the Company at an exercise price of \$3.90, for a period of 36 months from the date of issuance.

The Company incurred costs of \$14,905 relating to professional and advisory services resulting in net proceeds of the non-brokered private placement of \$3,285,095 which was allocated proportionally between share capital and warrants based on their relative fair values within the unit with \$2,391,931 (73%) allocated to share capital and \$893,164 (27%) allocated to warrants.

The fair value of the warrants issued were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019
Share price	\$ 1.75
Exercise price	\$2.90 - \$3.90
Expected volatility	88% - 91%
Expected option life	2-3 years
Expected dividend yield	-
Expected forfeiture rate	-
Risk-free interest rate	1.29% - 1.57%

ii) *Shares issued from financing*

On March 17, 2020, the Company completed a bought deal offering under which 8,506,300 common shares were issued at \$1.80 per common shares for total gross proceeds of \$15,311,340. The Company paid agents fees and cash commissions of \$839,363 and issued 228,750 broker warrants valued at \$72,280. Each broker warrant expires on March 17, 2022 and entitles the holder to purchase one common share at a price of \$2.10 per share.

The Company incurred additional costs of \$322,186 relating to professional and advisory services resulting in net proceeds of the bought deal of \$14,149,791.

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14. Share capital (continued)

ii) *Shares issued from financing (continued)*

The fair value of the warrants issued were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

		2020
Share price	\$	1.40
Exercise price	\$	2.10
Expected volatility		63.00%
Expected option life		2 years
Expected dividend yield		-
Expected forfeiture rate		-
Risk-free interest rate		0.63%

c) Share based compensation and share based payment reserve

A summary of changes in share-based compensation during the six months ended June 30, 2020 and for the year ended December 31, 2019 is as follows:

Measurement date	Number of options	Weighted average exercise price
	#	\$
Balance, December 31, 2018	1,216,941	1.42
Granted	70,000	1.80
Exercised	(3,000)	1.20
Expired	(29,778)	1.49
Forfeited	(889)	1.20
Balance, December 31, 2019	1,253,274	1.42
Exercised	(147,500)	1.10
Balance, June 30, 2020	1,105,774	1.48

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14. Share capital (continued)

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

The following tables summarize information about the Company's share options outstanding at June 30, 2020 and December 31, 2019:

Exercise price	June 30, 2020			December 31, 2019		
	Number of stock options outstanding	Number of stock options exercisable	Weighted average remaining contractual life	Number of stock options outstanding	Number of stock options exercisable	Weighted average remaining contractual life
\$1.000	95,774	95,774	0.84	185,774	185,774	0.93
\$1.200	116,500	116,500	1.53	116,500	116,500	2.03
\$1.250	75,000	75,000	2.38	132,500	132,500	1.85
\$1.300	150,000	150,000	2.27	150,000	150,000	2.76
\$1.450	20,000	10,003	3.49	20,000	6,667	3.99
\$1.500	225,000	156,278	2.83	225,000	118,750	3.33
\$1.650	201,000	183,694	2.41	201,000	162,805	2.91
\$1.800	125,000	60,850	3.53	125,000	24,445	4.03
\$1.950	97,500	81,300	2.51	97,500	64,999	3.01
	1,105,774	929,399	2.40	1,253,274	962,440	2.62

During the three and six months ended June 30, 2020, the Company recognized stock-based compensation expense of \$41,702 and \$87,773 (2019 - \$46,608 and \$82,480).

d) Warrants

A summary of changes in warrants during the six months ended June 30, 2020 and for the year ended December 31, 2019 is as follows:

Measurement date	Number of warrants	Weighted average exercise price
	#	\$
Balance, December 31, 2018	4,311,130	1.80
Granted	2,062,500	3.40
Exercised	(899,424)	1.80
Expired	(3,411,706)	1.80
Balance, December 31, 2019	2,062,500	3.40
Granted	228,750	2.10
Balance, June 30, 2020	2,291,250	3.27

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14. Share capital (continued)

d) Warrants (continued)

The following table summarizes information about the Company's warrants outstanding at June 30, 2020 and December 31, 2019:

Exercise price	June 30, 2020			December 31, 2019		
	Number of warrants outstanding	Number of warrants exercisable	Weighted average remaining contractual life	Number of warrants outstanding	Number of warrants exercisable	Weighted average remaining contractual life
\$2.100	228,750	228,750	1.65	-	-	-
\$2.900	1,031,250	1,031,250	0.50	1,031,250	1,031,250	1.05
\$3.900	1,031,250	1,031,250	1.50	1,031,250	1,031,250	2.05
	2,291,250	2,291,250	1.06	2,062,500	2,062,500	1.55

15. Leases

The Company adopted IFRS 16 effective January 1, 2019 and on initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability. When measuring lease liabilities, the Company discounted lease payments using an incremental borrowing rate of 9% for all leases except for leases located in Sri Lanka where a 12% incremental borrowing rate was used. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

The following table reconciles the Company's operating lease obligations to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019:

Right of use asset	Premise lease
Cost	\$
Balance, January 1, 2019	-
Aggregate lease commitments	1,470,905
Less: Impact of present value	(463,585)
Opening IFRS 16 lease value as at January 1, 2019	1,007,320
Additions	48,889
Lease: Lease receivable related to finance sublease	(86,525)
Balance, December 31, 2019	969,684
Balance, June 30, 2020	969,684
Accumulated amortization	
Balance, December 31, 2019	178,265
Amortization	106,846
Balance, June 30, 2020	285,111
Net book value as at:	
December 31, 2019	791,419
June 30, 2020	684,573

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15. Leases (continued)

Lease liabilities	Premise lease
	\$
Balance, January 1, 2019	1,007,320
Additions	48,889
Financing costs	90,664
Payments	(284,449)
Total lease liabilities at December 31, 2019	862,424
Financing costs	40,281
Payments	(153,227)
Total lease liabilities at June 30, 2020	749,478
Current portion of lease liabilities	166,541
Long-term portion of lease liabilities at June 30, 2020	582,937
Total lease liabilities at June 30, 2020	749,478

16. Expenses by nature

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Salaries, wages and benefits	1,120,815	1,377,135	2,708,710	2,532,411
Depreciation and amortization	523,299	460,476	1,046,684	866,143
Acquisition related expenses	6,659	168,808	255,567	222,170
Hosting and software licenses	210,205	109,846	403,066	172,840
Consulting	180,681	185,563	370,118	298,049
Travel	8,803	105,130	125,430	155,700
Professional fees	106,499	83,952	214,193	183,269
Computer expenses	114,173	115,300	212,340	186,811
Royalties	23,788	38,731	109,669	82,034
Facilities	57,562	92,787	120,695	147,700
Other	154,057	135,712	155,274	241,267
Stock based compensation	41,702	46,608	87,773	82,480
Interest and accretion expense	3,135	130,068	48,251	255,644
Investor relations	18,050	30,610	62,850	62,231
	2,569,428	3,080,726	5,920,620	5,488,749

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17. Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include management executives of the Company. Compensation provided to key management is as follows:

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Salaries and short-term employee benefits	162,517	162,517	325,034	325,034
Stock-based compensation	17,562	18,842	35,124	35,542
	180,079	181,359	360,158	360,576

18. Segmented information

The Company has identified one operating segment for its operations, the revenue of healthcare information systems in the mental health, long-term care, community health service and hospital sectors. The majority of the Company's assets are located in Canada. The Company sells into five major geographic regions: Canada, the United States of America ("USA"), the United Kingdom, Australia and parts of Western Asia. The Company has determined that it has a single reportable segment as the Company's decision makers review information on a consolidated basis.

The revenues in each of these geographic locations for the three and six months ended June 30, 2020 and 2019 are as follows:

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Canada	1,946,420	2,158,668	3,564,019	4,050,626
USA	399,850	457,596	811,702	972,942
United Kingdom	84,121	211,027	194,203	248,034
Australia	173,627	-	173,435	-
Western Asia	144,877	-	775,536	-
Total revenues	2,748,895	2,827,291	5,518,895	5,271,602

Vitalhub Corp.

Notes to the Interim Condensed Consolidated Financial Statements

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18. Segmented information (continued)

The total non-current assets in each of these geographic locations as at June 30, 2020 and December 31, 2019 are as follows:

	June 30, 2020	December 31, 2019
	\$	\$
Canada	19,069,263	20,094,824
USA	961	1,002
Total non-current assets	19,070,224	20,095,826

19. Wage Subsidy

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. Various levels of government and the Bank of Canada have responded with significant monetary and fiscal interventions designed to stabilize economic conditions. The efficacy of the government and the Bank of Canada's intervention to support business has come in various forms including Canada Emergency Wage Subsidy (CEWS) as a temporary measure.

The CEWS program provides government assistance in the form of wage subsidy for qualifying businesses faced with specified levels of revenue decline designed to either retain workforce on payroll or to re-hire furloughed employees. The CEWS program is applicable from March 15 to August 29, 2020 for eligible entities that have experienced a reduction in gross revenue for the period as determined by the program.

The Company has elected to compare the revenue during the availability period to the average of January and February 2020 revenues and calculated on accrual basis and included on a gross basis. The Company qualified and received \$401,445 of subsidy during the eligibility period in the current quarter using remuneration during the eligibility periods noted below.

	Wage Subsidy
	\$
March 15, 2020 - April 11, 2020	137,953
April 12, 2020 - May 9, 2020	132,231
May 10, 2020 - June 6, 2020	131,261
Total	401,445

The assistance received from CEWS reduced the amount of remuneration expenses eligible for other federal tax credits calculated on the same remuneration, such as Scientific Research & Experimental Development (SR&ED) investment tax credits for the Company. The Company continues to monitor proposed legislative changes to determine their effects on the Company at such time.

The Company has recorded the subsidy received as an offset to payroll expenses across the various departments in the interim condensed consolidated statements of operations and comprehensive loss.

Vitalhub Corp.

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20. COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in the World Health Organization declaring this virus a global pandemic in March 2020. Governments around the world have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing and closure of businesses have caused material disruption to businesses resulting in an economic slowdown. Governments and central banks have responded with significant monetary and fiscal interventions designed to stabilize the financial markets. A critical estimate for the Company is to assess the impact of the pandemic on the recoverability of long-lived assets, accounts receivable, goodwill, intangible assets as well as the availability of future financing in assessing the going concern assumption. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time. The Company has taken advantage of government incentives as disclosed in Note 19.

21. Subsequent events

Acquisition of Intouch with Health Ltd.

On August 20, 2020, the Company acquired all of the issued and outstanding securities of Intouch with Health Ltd. ("Intouch"). Intouch provides patient flow management solutions.

In addition, the Company has a contingent consideration payable over a three-year period after the closing and is contingent upon meeting certain revenue targets.

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 Intouch acquisition has been completed using provisional amounts within these interim condensed consolidated financial statements.

Consideration

Cash consideration on closing	\$ 6,856,438
Cash held in escrow for 4 months	1,143,016
Fair value of contingent consideration	754,882
	\$ 8,754,337

Purchase price allocation

Cash	\$ 3,928,058
Accounts receivable	769,880
Prepays	95,051
Inventory	202,048
Property and equipment	32,257
Intangible assets	41,288
Accounts payable and accrued liabilities	(1,121,316)
Deferred revenue	(2,295,121)
Acquired technology	779,309
Customer relationships	2,493,789
Brand	242,452
Goodwill	3,586,640
	\$ 8,754,337

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21. Subsequent events (continued)

Acquisition of Transforming Systems Ltd.

On September 9, 2020, the Company acquired all of the issued and outstanding securities of Transforming Systems Ltd. ("Transform"). Transform provides patient flow management solutions.

In addition, the Company has a contingent consideration payable over a three-year period after the closing and is contingent upon meeting certain revenue targets.

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 Transform acquisition has been completed using provisional amounts within these interim condensed consolidated financial statements.

Consideration

Cash consideration on closing	\$ 6,462,061
Cash held in escrow for 5 months	515,936
Issued shares (391,707 shares issued at \$2.11/share)	909,490
Issued shares held in escrow (1,175,120 shares issued at \$2.11/share) - discounted	2,205,889
Fair value of contingent consideration	827,270
	\$ 10,920,646

Purchase price allocation

Cash	\$ 1,677,921
Accounts receivable	558,027
Prepays	76,692
Property and equipment	34,127
Accounts payable and accrued liabilities	(1,093,306)
Deferred revenue	(1,530,852)
Acquired technology	1,702,588
Customer relationships	3,594,353
Brand	447,144
Goodwill	5,453,952
	\$ 10,920,646

Private placement

On September 15, 2020, the Company closed a non-brokered private placement of 1,000,000 common shares at a price per share of \$2.20 for total gross proceeds to the Company of \$2,200,000.

Bought deal offering

On October 26, 2020, the Company entered into an agreement with a syndicate of investment dealers led by Cormark Securities Inc. (collectively, the "Underwriters") pursuant to which the Underwriters have agreed to purchase 5,172,500 Common Shares (the "Common Shares") from the treasury of the Company, at a price of \$2.90 per Common Share for total gross proceeds of approximately \$15 million (the "Offering"). In addition, the Company has granted the Underwriters an option (the "Over-Allotment Option") to purchase up to an additional 15% of the Common Shares of the Offering on the same terms exercisable at any time up to 30 days following the closing of the Offering, for market stabilization purposes and to cover over-allotments, if any.