

Vitalhub Corp.
Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

Independent Auditor's Report

To the Shareholders of Vitalhub Corp.:

Opinion

We have audited the consolidated financial statements of Vitalhub Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisitions

Key Audit Matter Description

As described in Notes 3 and 4 to the consolidated financial statements, during 2022, the Company completed four acquisitions accounted for as business combinations, which, in aggregate, amounted to \$26,354,377 in total consideration. The identifiable assets acquired and the liabilities assumed are measured at fair value as of the acquisition date. Where the net of the fair value of the assets acquired and liabilities assumed is less than the fair value of consideration transferred, the difference is accounted for as goodwill. In assessing fair value of the acquired assets, management used various valuation techniques involving significant judgement and subjectivity.

We considered this to be a key audit matter due to the complexity of the transactions, which included valuation of the acquired intangible assets. This resulted in a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating the audit evidence related to management's estimates. As such, an increased extent of audit effort was required, which included the involvement of internal valuation specialists.

Audit Response

We responded to this matter by performing procedures over management's valuation techniques in determining fair value of the acquired assets and in determining goodwill for each of the four acquisitions. Our audit work in relation to this included, but was not restricted to, the following:

- Analyzed the signed purchase agreements to obtain an understanding of the key terms and conditions and to identify the necessary accounting considerations.
- Tested the mathematical accuracy of management's valuation models and supporting calculations.
- Evaluated the fair value of the consideration transferred.
- Evaluated the reasonableness of key assumptions in management's models, including testing of historical financial results which were used as a basis for future projections.
- Assessed the appropriateness of the disclosures relating to the assumptions used in the acquisition in the notes to the consolidated financial statements.
- With the assistance of internal valuation specialists, evaluated the reasonableness of management's model, through assessing the appropriateness of valuation models used and testing the significant assumptions and inputs by:
 - Comparing to externally available industry and economic trends;
 - Evaluating budgets and forecasts for future operations; and
 - Comparing against guideline companies within the same industry.

Impairment Analysis of Goodwill and Long-Lived Assets

Key Audit Matter Description

We draw attention to Notes 3, 6, 7, and 8 to the consolidated financial statements. The Company has recorded goodwill, property and equipment, right-of-use assets and intangibles assets of \$75,620,172 as of December 31, 2022. The Company performs impairment testing for goodwill and long-lived assets on an annual basis or more frequently when there is an indication of impairment. An impairment is recognized if the carrying amount of an asset, or its cash generating unit (CGU), exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs of disposal. In determining the estimated recoverable amounts using a discounted cash flow model, the Company's significant assumptions include future cash flows based on expected operating results, long-term growth rates and the discount rate.

We considered this a key audit matter due to the significant judgment made by management in estimating the recoverable amount for goodwill and long-lived assets and a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to management's estimates. This resulted in an increased extent of audit effort, including the involvement of internal valuation specialists.

Audit Response

We responded to this matter by performing procedures over the impairment of goodwill and long-lived assets. Our audit work in relation to this included, but was not restricted to, the following:

- Tested management's key assumptions, including a 'retrospective review' to compare management's assumptions in prior year expected future cash flows to the actual results to assess the Company's budgeting process.
- Evaluated the reasonableness of key assumptions in the impairment model, including future cash flows based on expected operating results, long-term growth rates and the discount rate.
- Tested the mathematical accuracy of management's impairment model and supporting calculations.
- Assessed the appropriateness of the disclosures relating to the assumptions used in the impairment assessment in the notes to the consolidated financial statements.
- With the assistance of internal valuation specialists, evaluated the reasonableness of the Company's impairment

model, which included:

- Evaluating the reasonableness of the discount rates by comparing the Company's weighted average cost of capital against publicly available market data;
- Developing a range of independent estimates and comparing those to the discount rate selected by management; and
- Performing a sensitivity analysis by developing a range of independent estimates of growth rates and weighted average cost of capital.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Saad Shaikh.

Toronto, Ontario
March 23, 2023

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

MNP

Vitalhub Corp.
For the years ended December 31, 2022 and 2021

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Vitalhub Corp.
Consolidated Statements of Financial Position
As at December 31, 2022 and 2021
(in Canadian Dollars)

	December 31, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Cash	17,452,210	16,389,982
Accounts receivable, net of expected credit loss (Note 5)	11,411,441	5,561,322
Inventory	704,407	199,732
Prepaid expenses	998,514	472,669
	30,566,572	22,623,705
Non-current assets		
Property and equipment (Note 6)	663,469	533,600
Intangible assets (Note 7)	30,845,739	19,585,056
Right-of-use assets (Note 13)	766,467	707,352
Goodwill (Note 8)	43,344,497	29,322,077
	106,186,744	72,771,790
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	6,022,394	4,064,012
Loans payable (Note 10)	-	29,160
Contingent consideration (Note 11)	2,801,376	1,924,292
Income taxes payable (Note 12)	41,705	168,540
Lease liabilities (Note 13)	372,457	241,704
Deferred revenue	14,579,698	8,305,985
	23,817,630	14,733,693
Long term liabilities		
Deferred revenue	915,763	515,346
Deferred tax liability (Note 12)	5,545,170	2,176,357
Lease liabilities (Note 13)	509,738	521,649
	30,788,301	17,947,045
Shareholders' equity		
Share capital (Note 14 (b))	79,729,340	61,142,937
Share-based payment reserve (Note 14 (c))	3,854,461	2,755,986
Deferred share units payment reserve (Note 14 (d))	253,500	253,500
Warrant reserve (Note 14 (e))	445,681	465,235
Accumulated other comprehensive loss	(444,609)	(138,347)
Deficit	(8,439,930)	(9,654,566)
	75,398,443	54,824,745
	106,186,744	72,771,790

Approved by the Board

(Signed) Dan Matlow _____

Director

(Signed) Barry Tissenbaum _____

Director

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

Vitalhub Corp.
Consolidated Statements of Operations and Comprehensive Income (Loss)
For the years ended December 31, 2022 and 2021
(in Canadian Dollars)

	For the year ended December 31, 2022	For the year ended December 31, 2021
	\$	\$
Revenue		
Term licences, maintenance and support	29,359,361	19,250,266
Perpetual licences	3,618,552	1,447,523
Services	5,828,892	2,963,297
Hardware	1,071,150	695,151
Other	92,859	308,356
Total revenue	39,970,814	24,664,593
Cost of sales	7,031,819	5,237,210
Gross profit	32,938,995	19,427,383
Expenses		
General and administrative	8,556,468	5,079,379
Sales and marketing	4,275,151	3,614,173
Research and development	10,431,212	6,045,799
Depreciation of property and equipment (Note 6)	250,287	162,424
Depreciation of right-of-use assets (Note 13)	342,863	272,482
Stock based compensation (Note 14 (c))	1,140,387	1,717,094
Foreign currency loss	150,399	137,927
	25,146,767	17,029,278
Income before amortization of intangible assets, business acquisition, restructuring and integration costs, loss (gain) on change in fair value of contingent consideration, interest expense and accretion (net of interest income), interest expense on lease liabilities, loss on disposal of property and equipment and income taxes	7,792,228	2,398,105
Amortization of intangible assets (Note 7)	3,279,803	2,241,251
Business acquisition, restructuring and integration costs (Note 4)	2,438,904	1,844,212
Loss (gain) on change in fair value of contingent consideration (Note 11)	695,402	(128,270)
Interest expense and accretion (net of interest income)	40,914	(29,548)
Interest expense from lease liabilities (Note 13)	29,431	82,432
Loss on disposal of property and equipment (Note 6)	1,057	1,593
	6,485,511	4,011,670
Income (loss) before income taxes	1,306,717	(1,613,565)
Provision for income taxes		
Current (Note 12)	289,337	175,600
Deferred (Note 12)	(197,256)	157,476
	92,081	333,076
Net income (loss)	1,214,636	(1,946,641)
Other comprehensive income (loss)		
Foreign currency translation loss	(306,262)	(168,128)
Comprehensive income (loss)	908,374	(2,114,769)
Income (loss) per share		
Basic	0.03	(0.05)
Diluted	0.03	(0.05)
Weighted average number of shares outstanding		
Basic	41,493,038	36,396,337
Diluted	42,560,541	36,396,337

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

Vitalhub Corp.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2022 and 2021
(in Canadian Dollars)

	Number of common shares	Share capital \$	Share-based payment reserve \$	Deferred share units payment reserve	Warrant reserve \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total shareholders' equity \$
Balance, December 31, 2020	35,106,314	55,683,203	1,315,592	-	990,032	29,781	(7,707,925)	50,310,683
Acquisition of S12 Solutions Limited (Note 4 (a))	229,124	654,984	-	-	-	-	-	654,984
Acquisition of Jayex Healthcare Limited (Note 4 (b))	150,078	442,790	-	-	-	-	-	442,790
Shares issued for contingent consideration (Note 14 (b)(i))	88,888	274,264	-	-	-	-	-	274,264
Stock options exercised (Note 14 (c))	150,774	187,974	(23,200)	-	-	-	-	164,774
Stock based compensation (Note 14 (c))	-	-	1,463,594	253,500	-	-	-	1,717,094
Warrants exercised (Note 14 (e))	1,214,250	3,899,722	-	-	(524,797)	-	-	3,374,925
Net loss and comprehensive loss for the year	-	-	-	-	-	(168,128)	(1,946,641)	(2,114,769)
Balance, December 31, 2021	36,939,428	61,142,937	2,755,986	253,500	465,235	(138,347)	(9,654,566)	54,824,745
Shares issued from financing (Note 14 (b)(ii))	5,645,200	16,297,935	-	-	-	-	-	16,297,935
Acquisition of Beautiful Information Limited (Note 4 (d))	90,266	267,483	-	-	-	-	-	267,483
Acquisition of Hicom Technology Limited (Note 4 (e))	475,104	1,338,715	-	-	-	-	-	1,338,715
Repurchase of common shares (Note 14 (b)(iii))	(91,600)	(215,417)	-	-	-	-	-	(215,417)
Stock options exercised (Note 14 (c))	495,500	782,058	(41,912)	-	-	-	-	740,146
Stock based compensation (Note 14 (c))	-	-	1,140,387	-	-	-	-	1,140,387
Warrants exercised (Note 14 (e))	45,750	115,629	-	-	(19,554)	-	-	96,075
Net income and comprehensive loss for the year	-	-	-	-	-	(306,262)	1,214,636	908,374
Balance, December 31, 2022	43,599,648	79,729,340	3,854,461	253,500	445,681	(444,609)	(8,439,930)	75,398,443

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

Vitalhub Corp.
Consolidated Statement of Cash Flows
For the years ended December 31, 2022 and 2021
(in Canadian Dollars)

	For the year ended December 31, 2022	For the year ended December 31, 2021
	\$	\$
Operating activities		
Net income (loss)	1,214,636	(1,946,641)
Adjustments for:		
Depreciation of property and equipment (Note 6)	250,287	162,424
Depreciation of right-of-use assets (Note 13)	342,863	272,482
Amortization of intangible assets (Note 7)	3,279,803	2,241,251
Unrealized foreign exchange loss (gain)	150,399	(440,942)
Loss on disposal of property and equipment (Note 6)	1,057	1,593
Change in fair value and accretion of contingent consideration (Note 11)	710,954	(116,760)
Interest expense from lease liabilities (Note 13)	29,431	82,432
Stock based compensation (Note 14 (c))	1,140,387	1,717,094
Changes in working capital		
Accounts receivable	(2,039,125)	(1,892,484)
Inventory	(504,675)	245,690
Lease receivable	-	5,225
Prepaid expenses	(287,855)	20,239
Accounts payable and accrued liabilities	(945,731)	(662,473)
Deferred revenue	3,454,908	356,548
Income taxes payable (Note 12)	(377,192)	197,955
Deferred tax liability (Note 12)	(298,238)	158,722
	6,121,909	402,355
Investing activities		
Purchase of property and equipment (Note 6)	(266,837)	(221,068)
Purchase of intangible assets (Note 7)	(28,210)	(38,542)
Acquisition of S12 Solutions Limited (net of cash acquired) (Note 4 (a))	-	(5,634,848)
Acquisition of Jayex Healthcare Limited (net of cash acquired) (Note 4 (b))	-	(1,570,068)
Acquisition of Alamac Limited (net of cash acquired) (Note 4 (c))	-	(2,592,053)
Acquisition of Beautiful Information Limited (net of cash acquired) (Note 4 (d))	(2,302,436)	-
Acquisition of Hicom Technology Limited (net of cash acquired) (Note 4 (e))	(10,946,401)	-
Acquisition of Community Data Solutions (net of cash acquired) (Note 4 (f))	(6,403,698)	-
Acquisition of Advanced Digital Innovation (UK) Limited (net of cash acquired) (Note 4 (g))	(380,020)	-
Payments of contingent consideration (Note 11)	(1,516,310)	(419,318)
	(21,843,912)	(10,475,897)
Financing activities		
Proceeds from Scotiabank loan	9,999,982	-
Proceeds from issuance of shares - net of issuance costs (Note 14 (b)(ii))	16,297,935	-
Principal payments on loans payable (Note 10)	(10,105,965)	(42,409)
Principal payments on lease liabilities (Note 13)	(410,187)	(329,826)
Repurchase of common shares (Note 14 (b)(iii))	(215,417)	-
Proceeds from exercise of options (Note 14 (c))	740,146	164,774
Proceeds from exercise of warrants (Note 14 (e))	96,075	3,374,925
	16,402,569	3,167,464
Effect of foreign exchange rate changes on cash	381,662	(95,886)
Increase (decrease) in cash	1,062,228	(7,001,964)
Cash, beginning of the year	16,389,982	23,391,946
Cash, end of the year	17,452,210	16,389,982

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

Vitalhub Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(in Canadian Dollars)

1. Description of business

Vitalhub Corp. and its subsidiaries (the “Company”) provide technology to Health and Human Service providers including; Hospitals, Regional Health Authorities, Mental Health, Long Term Care, Home Health, Community and Social Services. Vitalhub solutions span the categories of Electronic Health Records (EHR), Case Management, Care Coordination, Patient Flow and Operational Visibility and Mobile Apps.

Vitalhub Corp. has thirteen wholly owned subsidiaries: Vitalhub (PVT) Ltd, H.I.Next LLC, Vitalhub UK Limited, Oculys Health Informatics Inc., Intouch with Health Limited., Transforming Systems Limited, S12 Solutions Limited., Vitalhub Australia PTY Ltd, Alamac Limited, Beautiful Information Limited, Hicom Technology Limited., Community Data Solutions, and MyPathway Solutions Limited.

The Company’s shares trade on the TSX 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issuance by the Board of Directors on March 23, 2023.

COVID-19 and economic uncertainty

While the impact of COVID-19 on the Company has largely subsided, management continues to closely monitor all COVID-19 developments including its impact on the Company’s customers, employees, suppliers, vendors, business partners, and distribution channels. In addition to COVID-19, the global economy, including the financial and credit markets, has recently experienced extreme volatility and disruptions, including increases to inflation rates, rising interest rates, foreign currency impacts, declines in consumer confidence, and declines in economic growth. All these factors point to uncertainty about economic stability, and the severity and duration of these conditions on the Company’s operation cannot be predicted. Despite these uncertainties, the Company believes it is well equipped to handle the uncertainty and has taken several proactive steps in an attempt to better manage the challenges of the COVID-19 pandemic including potential future impact on the Company’s assets, cash flows and liquidity, operations and financial reporting. The Company has received government incentives as disclosed in Note 18.

3. Summary of significant accounting policies

Basis of measurement

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention except for the revaluation of certain financial assets and liabilities to fair value. All financial information is presented in Canadian dollars, or as otherwise noted. The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

Basis of consolidation

These consolidated financial statements consolidate the accounts of the Company and its wholly owned subsidiaries. Subsidiaries are those entities the Company controls by having power to, directly or indirectly, govern their financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date control ceases. Intercompany transactions, balances, income and expenses, and profit and losses are eliminated upon consolidation.

Vitalhub Corp.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(in Canadian Dollars)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

The Company's operating subsidiaries are as follows: Vitalhub (PVT) Ltd., H.I.Next LLC, Vitalhub (UK) Limited, Oculys Health Informatics Inc., Intouch with Health Limited., Transforming Systems Limited, S12 Solutions Limited, Vitalhub Australia PTY Ltd, Alamac Limited, Beautiful Information Limited, Hicom Technology Limited, Community Data Solutions, and MyPathway Solutions Limited.

Business combinations

Acquisitions have been accounted for using the acquisition method required by IFRS 3, Business Combinations. Goodwill arising from acquisitions is measured as the fair value of the consideration transferred less the net recognized amount of the estimated fair value of identifiable assets acquired and liabilities assumed (subject to certain exemptions to fair value measurement principles such as deferred tax assets or liabilities), all measured as of the acquisition date.

Transaction costs that are incurred by the Company in connection with a business combination are expensed as incurred (except for costs directly related to the issuance of shares which are recognized in equity).

The Company uses its best estimates and assumptions to accurately value assets and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. On conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in profit and loss.

Operating segments

The Company operates as one operating segment which is reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers are responsible for the allocation of resources and assessing the performance of the operating segment and have been identified as the President & CEO and CFO & EVP of the Company.

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars. The functional currency of Vitalhub Corp., and Oculys Health Informatics Inc. is Canadian dollars, the functional currency of H.I.Next LLC is US dollars, the functional currency of Vitalhub (PVT) Ltd. is Sri Lankan Rupees, the functional currency of Vitalhub (UK) Limited, Intouch with Health Ltd, Transforming Systems Ltd., S12 Solutions Ltd, Alamac Limited, Beautiful Information Limited., Hicom Technology Limited, and MyPathway Solutions Limited is Pound Sterling, and the functional currency of Vitalhub Australia PTY Ltd and Community Data Solutions is Australian dollars.

Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the rate of exchange at the reporting period date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in the accumulated other comprehensive income or loss included in shareholders' equity. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the reporting period date. Gains and losses on translation of monetary items are recognized in the statements of operations and comprehensive income (loss).

Vitalhub Corp.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(in Canadian Dollars)

3. Summary of significant accounting policies (continued)

Financial instruments

IFRS 9 contains three principle classifications for financial assets: measured at amortized cost, fair value through other comprehensive income or loss (“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 a business model and its contractual cash flow characteristics.

The following table shows the classification categories under IFRS 9 for each class of the Company’s financial assets and financial liabilities.

Financial assets and liabilities	IFRS 9
Cash	FVTPL
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost
Contingent consideration	FVTPL

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified and subsequently measured at amortized cost, fair value through other comprehensive income or loss (“FVOCI”) or fair value through profit or loss (“FVTPL”). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of trade receivables.
- Fair value through other comprehensive income or loss - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income or loss. Interest income is calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income or loss. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income or loss is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income or loss.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income or loss, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and cash equivalents.

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3. Summary of significant accounting policies (continued)

Financial assets (continued)

Classification and subsequent measurement (continued)

- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

The Company measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. The entity does not hold any equity investments.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for trade receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the statements of financial position as a deduction from the gross carrying amount of the financial asset.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

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3. Summary of significant accounting policies (continued)

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expired.

Research and development

The Company incurs costs associated with the design and development of new products. Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized as internally generated intangible assets if the Company can demonstrate each of the following criteria:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during development; and
- the ability to use or settle the asset

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. The asset is amortized over the period of expected future benefit. In the event that a program for which costs have been deferred is modified or cancelled, the Company will assess the recoverability of the deferred costs and, if considered unrecoverable, will expense the costs in the period the assessment is made.

Cash

Cash includes cash on hand and deposits held with banks and amounts held in short-term investments that mature within 90 days.

Inventory

Inventory is stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out method.

At each reporting date, inventory is assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Vitalhub Corp.
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3. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation, and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the period in which they are incurred.

Depreciation is calculated using a straight-line method to write off the cost of the asset to their residual values over their estimated useful lives. The useful lives applicable to each category of property and equipment are as follows:

Computer hardware	3 - 5 years
Furniture and fixtures	3 - 5 years
Leasehold improvements	5 - 7 years

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying value of the asset and are included as part of other gains and losses in the consolidated statements of operations and comprehensive income (loss).

Intangible assets

The Company's intangible assets include acquired technologies, customer relationships, brands, training videos and patents and trademarks. These assets are capitalized and amortized on a straight-line basis over the period of their expected useful lives as follows:

Acquired technologies	5 - 8 years
Customer relationships	2 - 14 years
Brands	5 - 12 years
Training videos	3 years
Patents and trademarks	5 - 10 years

Impairment of non-financial assets

Property, equipment and intangible assets (other than goodwill) are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. When an indication of impairment is identified, the carrying value of the asset or group of assets is measured against the recoverable amount. The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Leases

At commencement of the contract, the Company evaluates if the contract is a lease based on whether the contract conveys the right to control the use of a specific asset for a period of time in exchange for a consideration. To determine whether the contract results in right of control, the Company assesses whether it has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. Once the Company has determined that the contract conveys the right to control the use of the asset, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The asset is initially measured at cost which comprises the lease liability, lease payments made at or before the commencement date less any lease incentives. Subsequently the asset is measured at net carrying value, which is cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

Vitalhub Corp.
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3. Summary of significant accounting policies (continued)

Leases (continued)

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The lease liability is initially measured at the present value of the future lease payments discounted using the Company's incremental borrowing rate as the discount rate. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. The Company applies recognition exemptions for short-term leases (leases with term less than 12 months) and low-dollar value leases. The Company leases properties which make up the entire right-of-use asset and lease liability balances.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested annually for impairment and whenever events or changes in circumstances indicate that the carrying value may be impaired by comparing its carrying value against the recoverable amount (the higher of value in use or fair value less costs to sell).

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income or loss.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled.

The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or loss or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Estimates

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

Vitalhub Corp.
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3. Summary of significant accounting policies (continued)

Investment tax credits

Investment tax credits (“ITCs”) are recognized where there is reasonable assurance that the ITCs will be received, and all attached conditions will be complied with. When the ITCs relates to an expense item, it is netted against the related expense. Where the ITCs relate to an asset, it reduces the carrying amount of the asset and is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. The Company is actively engaged in scientific research and development (“R&D”) and, accordingly, has previously filed for ITC refunds under both the Canadian federal and Ontario provincial Scientific Research and Experimental Development (“SR&ED”) tax incentive programs. The ITCs recorded in the accounts are based on management’s interpretation of the Income Tax Act of Canada provisions which govern the eligibility of R&D costs.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from shareholders’ equity.

Share-based compensation

The Company records compensation cost based on the fair value method of accounting for share-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the stock options is recognized over the vesting period as compensation expense and share-based compensation reserve. The costs of the Company’s stock options are recognized using the graded vesting method.

Share-based compensation costs are based on the estimated number of instruments expected to vest, which are then re-estimated at the reporting dates to the extent that subsequent information indicates the actual number of instruments expected to vest is likely to differ from previous estimates.

Volatility assumptions are management’s best estimate, based on historical data of the Company and comparable companies in the market. When stock options are exercised, the proceeds received, together with any related amount in share-based payment reserve, is credited to share capital.

Warrant reserve

The fair value of warrants is determined upon their issuance either as part of unit private placements or in settlement of share issuance costs and finders’ fees, using the Black-Scholes model. All such warrants are classified in a warrant reserve within equity. If the warrants are exercised, the value attributable to the warrants is transferred to share capital. Upon expiry, the amounts recorded for expired warrants is transferred to shareholders’ equity from the warrant reserve. Shares are issued from treasury upon the exercise of share purchase warrants.

Net income (loss) per share

Basic net income (loss) per share is calculated based on the weighted average number of common shares outstanding for the year. Diluted net income (loss) per share is calculated using the weighted average number of common shares outstanding for the year for basic net income (loss) per share plus the weighted average number of potential dilutive shares that would have been outstanding during the year had all potential common shares been issued at the beginning of the year or when the underlying stock options, and warrants were granted, if later, unless they were anti-dilutive.

The treasury stock method is used to determine the incremental number of common shares that would have been outstanding had the Company used proceeds from the exercise of stock options and warrants to acquire common shares.

Vitalhub Corp.
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3. Summary of significant accounting policies (continued)

Revenue recognition

The Company recognized revenue in accordance with IFRS 15 Revenue from Contracts with Customers.

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.

Contracts with multiple products or services

Typically, the Company enters into contracts that contain multiple products and services such as right to use and right to access software licenses, hosted software-as-a-service ("SaaS"), maintenance and support, and professional services. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

Where a contract consists of more than one performance obligation, revenue is allocated to each based on their estimated standalone selling price.

a) Perpetual software licenses

The Company sells on-premise software licenses on both a perpetual and specified-term basis. Revenue from the license of distinct software is recognized at the time that both the right-to-use the software has commenced and the software has been made available to the customer. 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 access 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 access 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 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 SaaS subscriptions, which includes the hosted software and maintenance is recognized rateably over the term of the subscription.

Vitalhub Corp.
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3. Summary of significant accounting policies (continued)

Revenue recognition (continued)

d) Professional services

Professional services revenue includes installation, implementation, training, and customization of software.

Time and materials

Revenue is recognized as such services are performed based upon agreed upon charge rates with customers.

Fixed price contracts

Revenue is recognized by the stage of completion of the performance obligation determined using the percentage of completion method if the contracts are fixed price. The revenue and profit of fixed price contracts is recognized on a percentage of completion basis when the outcome of a contract can be estimated reliably. When the outcome of the contract cannot be estimated reliably but the Company expects to recover its costs, the amount of expected costs is treated as variable consideration and the transaction price is updated as more information becomes known.

e) Hardware

Hardware revenue consists of kiosks and related components, which are recognized when delivered to the customer.

f) Other income

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

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. The amount of a provision is the best estimate of the consideration at the end of the reporting period. Provisions measured using estimated cash flows required to settle the obligation are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The Company had no material provisions as at December 31, 2022 and 2021.

Significant accounting judgments and estimation uncertainties

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes to the consolidated financial statements. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimates are revised. Significant areas requiring the Company to make estimates include goodwill impairment testing and recoverability of assets, business combinations, income taxes, estimated useful life of long-lived assets, the fair value of share-based payments, and allowance for expected credit losses.

Vitalhub Corp.
Notes to the Consolidated Financial Statements
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3. Summary of significant accounting policies (continued)

Significant accounting judgments and estimation uncertainties (continued)

These estimates and judgments are further discussed below:

(i) Goodwill impairment testing and recoverability of assets

The Company has one cash-generating unit and reviews the value in use versus the carrying value both in total and for each of the individual assets. The recoverable amount of the cash-generating unit was estimated based on an assessment of value in use using a discounted cash flow approach. The approach uses cash flow projections based upon a financial forecast approved by management, covering a five-year period. Cash flows for the years thereafter are extrapolated using the estimated terminal growth rate. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ or change quickly, depending on economic conditions and other events.

(ii) Business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. All acquisitions have been accounted for using the acquisition method.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

(iii) Income taxes

At the end of each reporting period, the Company assesses whether the realization of deferred tax benefits is sufficiently probable to recognize deferred tax assets. This assessment requires the exercise of judgment on the part of management with respect to, among other things, benefits that could be realized from available income tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets could be reduced if estimates of projected future taxable income and benefits from available income tax strategies are lowered, or if changes in current income tax regulations are enacted that impose restrictions on the timing or extent of the Company's ability to utilize deferred tax benefits.

The Company's effective income tax rate can vary significantly quarter-to-quarter for various reasons, including the mix and volume of business in lower income tax jurisdictions and in jurisdictions for which no deferred income tax assets have been recognized because management believed it was not probable that future taxable profit would be available against which income tax losses and deductible temporary differences could be utilized. The Company's effective income tax rate can also vary due to the impact of foreign exchange fluctuations.

(iv) Estimated useful lives of long-lived assets

Management reviews useful lives of depreciable assets at each reporting date. Management assesses that the useful lives represent the expected utilization in terms of duration of the assets to the Company. Actual utilization, however, may vary due to technical obsolescence, particularly relating to software and information technology equipment.

(v) Share-based payments

The fair value of all share-based payments granted are determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of the options. The Company has a significant number of options outstanding and expects to continue to make grants.

Vitalhub Corp.
Notes to the Consolidated Financial Statements
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3. Summary of significant accounting policies (continued)

Significant accounting judgments and estimation uncertainties (continued)

(vi) *Provision for expected credit losses ("ECL")*

The Company performs impairment testing annually for accounts receivable in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs.

The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results were used to calculate the run rates of default which were then applied over the expected life of the trade receivables, adjusted for forward looking estimates.

(vii) *Functional currency*

The functional currency of the Company and its subsidiaries has been assessed by management based on consideration of the currency and economic factors that mainly influence operating costs, financing, and related transactions. Changes to these factors may have an impact on the judgment applied in the future determination of the Company's and its subsidiaries' functional currency.

(viii) *Investment tax credits receivable*

Investment tax credits are recorded based on management's estimate that all conditions attached to its receipt have been met. The Company has significant investment tax credits receivable and expects to continue to apply for future tax credits as their research and development activities remain applicable. Therefore, the estimates related to the recoverability of these investment tax credits are important to the Company's financial position.

(ix) *Incremental borrowing rates*

The Company's incremental borrowing rate is used to estimate the initial value of the lease liability and associated right of use asset. The Company's incremental borrowing rate is determined with reference to the borrowing rate for a similar asset within a country for a similar lease term.

(x) *Contingent consideration*

Management exercises judgment in determining the appropriate fair value of contingent consideration and considers all facts and circumstances relevant to the acquisition's future earnings upon which the liability is calculated. Any changes in the economic environment or operational activity of the acquisition may impact management's assessment of the liability and may have a material impact on the Company's consolidated statements of financial position and consolidated statements of operations and comprehensive income (loss). In determining the fair value of contingent consideration, the Company is required to estimate the future earnings generated by the acquisition over an agreed period after the acquisition and apply defined and fixed rules in order to calculate the expected future payment. The Company determines fair value by using estimates including projected future earnings of the acquisition consistent with strategic plans presented to the Board. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

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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 S12 Solutions Limited.

On April 19, 2021, the Company acquired all of the issued and outstanding securities of S12 Solutions Limited. ("S12"). S12 helps mental health professionals efficiently complete Mental Health Act 1983 processes.

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	\$ 4,507,563
Cash held in escrow	1,711,711
Issued shares (229,144 shares issued at \$2.91/share)	654,984
Fair value of contingent consideration	1,091,932
	\$ 7,966,190

Purchase price allocation	
Cash	\$ 584,426
Accounts receivable	405,568
Prepays	14,780
Property and equipment	66,681
Accounts payable and accrued liabilities	(459,928)
Deferred revenue	(1,877,078)
Deferred tax liability	(859,687)
Acquired technology	815,210
Customer relationships	3,573,049
Brand	242,829
Goodwill	5,460,340
	\$ 7,966,190

In addition, the Company has a contingent consideration in the amount of \$1,091,932 payable over a three-year period after closing and is contingent upon meeting certain revenue targets.

During the year ended December 31, 2022, the Company incurred \$252,506 in acquisition, restructuring and integration costs with this acquisition (year ended December 31, 2021 - \$548,796). These costs are included and separately disclosed in the consolidated statements of operations and comprehensive income (loss).

Vitalhub Corp.
Notes to the Consolidated Financial Statements
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4. Business acquisitions (continued)

b) Acquisition of Jayex Healthcare Limited

On May 14, 2021, the Company acquired the assets of Jayex Healthcare Limited ("Jayex") on-premise hospital queue management business segment. Jayex is a leading UK and Australian e-health provider of integrated SaaS healthcare services delivery platforms.

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	\$ 575,462
Cash held in escrow	994,606
Issued shares (150,078 shares issued at \$2.93/share)	442,790
Fair value of contingent consideration	26,194
	\$ 2,039,052
Purchase price allocation	
Inventory	\$ 133,247
Prepays	14,875
Property and equipment	6,795
Accounts payable and accrued liabilities	(33,585)
Deferred revenue	(267,644)
Acquired technology	51,222
Customer relationships	1,280,543
Goodwill	853,599
	\$ 2,039,052

The Company has a contingent consideration in the amount of \$26,194 payable over a two-year period after the closing, which has been discounted using a rate of 1.2% and is contingent upon meeting certain revenue targets.

During the year ended December 31, 2022, the Company incurred \$24,906 in acquisition, restructuring and integration costs with this acquisition (year ended December 31, 2021 - \$300,445). These costs are included and separately disclosed in the consolidated statements of operations and comprehensive income (loss).

Vitalhub Corp.
Notes to the Consolidated Financial Statements
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4. Business acquisitions (continued)

c) Acquisition of Alamac Limited

On July 2, 2021, the Company acquired all of the issued and outstanding securities of Alamac Limited ("Alamac"). Alamac provides technological and advisory solutions that assist healthcare organizations across the United Kingdom National Health Service.

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	\$ 2,485,086
Cash held in escrow	316,467
	\$ 2,801,553
Purchase price allocation	
Cash	\$ 209,500
Accounts receivable	23,011
Income taxes recoverable	62,999
Prepays	28,520
Property and equipment	10,549
Accounts payable and accrued liabilities	(151,478)
Deferred revenue	(105,325)
Deferred tax liability	(353,758)
Acquired technology	239,487
Customer relationships	1,180,328
Goodwill	1,657,720
	\$ 2,801,553

During the year ended December 31, 2022, the Company incurred \$2,400 in acquisition, restructuring and integration costs with this acquisition (year ended December 31, 2021 - \$126,278). These costs are included and separately disclosed in the consolidated statements of operations and comprehensive income (loss).

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4. Business acquisitions (continued)

d) Acquisition of Beautiful Information Limited

On January 27, 2022, the Company acquired all of the issued and outstanding shares of Beautiful Information Limited. ("Beautiful Information"). Beautiful Information is a UK-based company, which offers unique real-time information to NHS trusts to help them plan and resource clinical services to meet hourly fluctuations in patient flow.

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	\$ 2,224,123
Cash held in escrow	358,174
Issued shares (90,266 shares issued at \$2.96/share)	267,483
	\$ 2,849,780

Purchase price allocation

Cash	\$ 279,861
Accounts receivable	616,900
Prepays	10,649
Property and equipment	1,795
Accounts payable and accrued liabilities	(136,182)
Deferred revenue	(408,885)
Income taxes payable	(17,574)
Deferred tax liability	(404,932)
Loans payable	(76,822)
Acquired technology	204,370
Customer relationships	1,430,591
Goodwill	1,350,009
	\$ 2,849,780

From the date of acquisition to the year ended December 31, 2022, the Company incurred \$169,574 in acquisition, restructuring and integration costs with this acquisition. These costs are included and separately disclosed in the consolidated statements of operations and comprehensive income (loss).

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4. Business acquisitions (continued)

e) Acquisition of Hicom Technology Limited

On April 25, 2022, the Company acquired all of the issued and outstanding shares of Hicom Technology Limited. ("Hicom"), a company incorporated and registered in England and Wales. Hicom is a developer of software that automates healthcare and business processes across a diverse 200+ strong client base.

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	\$ 11,637,713
Cash held in escrow	1,297,836
Issued shares (475,104 shares issued at \$2.98/share)	1,338,715
Fair value of contingent consideration	1,739,650
	\$ 16,013,914
Purchase price allocation	
Cash	\$ 1,989,148
Accounts receivable	2,660,802
Prepays	196,787
Property and equipment	194,574
Accounts payable and accrued liabilities	(2,141,747)
Deferred revenue	(1,841,883)
Income taxes payable	(130,131)
Deferred tax liability	(2,303,641)
Acquired technology	1,427,620
Customer relationships	7,170,544
Brand	454,243
Goodwill	8,337,598
	\$ 16,013,914

The Company has a contingent consideration in the amount of \$1,739,650 payable over a two-year period after the closing and is contingent upon meeting certain revenue targets.

From the date of acquisition to the year ended December 31, 2022, the Company incurred \$1,080,149 in acquisition, restructuring and integration costs with this acquisition. These costs are included and separately disclosed in the consolidated statements of operations and comprehensive income (loss).

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4. Business acquisitions (continued)

f) Acquisition of Community Data Solutions

On October 11, 2022, the Company acquired all of the issued and outstanding shares of Community Data Solutions (“CDS”), a company incorporated and conducting business in Australia. CDS offers an online case management system and supporting products serving 350+ agencies located in all states and internal territories of Australia.

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 CDS acquisition has been completed using provisional amounts within these consolidated financial statements.

Consideration

Cash consideration on closing	\$ 6,399,596
Cash held in escrow	711,067
	\$ 7,110,663

Purchase price allocation

Cash	\$ 706,965
Accounts receivable	513,517
Prepays	30,554
Property and equipment	17,108
Accounts payable and accrued liabilities	(626,184)
Deferred revenue	(643,912)
Income taxes payable	(102,652)
Deferred tax liability	(958,478)
Acquired technology	355,657
Customer relationships	3,261,631
Brand	199,515
Goodwill	4,356,942
	\$ 7,110,663

From the date of acquisition to the year ended December 31, 2022, the Company incurred \$285,713 in acquisition, restructuring and integration costs with this acquisition. These costs are included and separately disclosed in the consolidated statements of operations and comprehensive income (loss).

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4. Business acquisitions (continued)

g) Acquisition of Advanced Digital Innovation

On November 4, 2022, the Company acquired certain assets to maintain the business of Advanced Digital Innovation (UK) Limited (“ADI”) with the product widely known as MyPathway. MyPathway is a digital health platform which is used to improve patient interactions during treatment.

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	\$ 380,020
	\$ 380,020
Purchase price allocation	
Accounts receivable	\$ 19,775
Deferred revenue	(324,542)
Acquired technology	52,971
Customer relationships	290,117
Brand	11,788
Goodwill	329,911
	\$ 380,020

From the date of acquisition to the year ended December 31, 2022, the Company incurred \$101,646 in acquisition, restructuring and integration costs with this acquisition. These costs are included and separately disclosed in the consolidated statements of operations and comprehensive income (loss).

5. Accounts receivable

	December 31, 2022	December 31, 2021
	\$	\$
Trade accounts receivable	10,124,822	5,276,476
Other receivables	1,649,854	572,315
	11,774,676	5,848,791
Expected credit loss provision	(363,235)	(287,469)
Net carrying value	11,411,441	5,561,322

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6. Property and equipment

	Computers	Furniture & fixtures	Leasehold improvements	Total
Cost	\$	\$	\$	\$
Balance, December 31, 2020	285,749	187,900	113,950	587,599
Acquisitions (Note 4)	6,795	77,230	-	84,025
Additions	148,721	30,646	41,701	221,068
Disposals	(23,973)	(1,122)	-	(25,095)
Effect of movements in exchange rates	(1,521)	572	(48)	(997)
Balance, December 31, 2021	415,771	295,226	155,603	866,600
Acquisitions (Note 4)	196,984	16,493	-	213,477
Additions	266,837	-	-	266,837
Disposals	(2,985)	-	-	(2,985)
Effect of movements in exchange rates	(96,755)	(28,055)	(20,954)	(145,764)
Balance, December 31, 2022	779,852	283,664	134,649	1,198,165
Accumulated depreciation				
Balance, December 31, 2020	110,514	52,501	30,179	193,194
Depreciation expense	75,665	64,739	22,020	162,424
Disposals	(21,820)	(1,682)	-	(23,502)
Effect of movements in exchange rates	456	466	(38)	884
Balance, December 31, 2021	164,815	116,024	52,161	333,000
Depreciation expense	157,061	75,179	18,047	250,287
Disposals	(1,928)	-	-	(1,928)
Effect of movements in exchange rates	(25,184)	(19,594)	(1,885)	(46,663)
Balance, December 31, 2022	294,764	171,609	68,323	534,696
Net book value as at:				
December 31, 2021	250,956	179,202	103,442	533,600
December 31, 2022	485,088	112,055	66,326	663,469

Vitalhub Corp.
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7. Intangible assets

	Acquired technologies	Customer relationships	Brands	Training videos	Patents and trademarks	Total
Cost	\$	\$	\$	\$	\$	\$
Balance, December 31, 2020	3,948,556	14,348,989	986,926	41,954	-	19,326,425
Acquisitions (Note 4)	1,105,919	6,033,920	242,829	-	-	7,382,668
Additions	-	-	-	36,996	1,546	38,542
Effect of movements in exchange rates	(40,885)	(101,462)	(10,893)	1,088	-	(152,152)
Balance, December 31, 2021	5,013,590	20,281,447	1,218,862	80,038	1,546	26,595,483
Acquisitions (Note 4)	2,040,618	12,152,883	665,546	-	-	14,859,047
Additions	-	-	-	28,210	-	28,210
Effect of movements in exchange rates	(140,789)	(228,080)	(17,616)	(3,011)	-	(389,496)
Balance, December 31, 2022	6,913,419	32,206,250	1,866,792	105,237	1,546	41,093,244
Accumulated amortization						
Balance, December 31, 2020	720,774	3,923,131	123,930	9,030	-	4,776,865
Amortization expense	669,564	1,389,126	151,034	31,527	-	2,241,251
Effect of movements in exchange rates	(2,675)	(6,419)	(364)	1,769	-	(7,689)
Balance, December 31, 2021	1,387,663	5,305,838	274,600	42,326	-	7,010,427
Amortization expense	948,885	2,130,211	180,513	20,049	145	3,279,803
Effect of movements in exchange rates	(6,237)	(33,511)	(1,747)	(1,230)	-	(42,725)
Balance, December 31, 2022	2,330,311	7,402,538	453,366	61,145	145	10,247,505
Net book value as at:						
December 31, 2021	3,625,927	14,975,609	944,262	37,712	1,546	19,585,056
December 31, 2022	4,583,108	24,803,712	1,413,426	44,092	1,401	30,845,739

8. Goodwill

	\$
Balance, December 31, 2020	20,868,384
Additions through business acquisitions (Note 4)	7,971,659
Effect of movements in exchange rates	482,034
Balance, December 31, 2021	29,322,077
Additions through business acquisitions (Note 4)	14,374,460
Effect of movements in exchange rates	(352,040)
Balance, December 31, 2022	43,344,497

Vitalhub Corp.
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9. Accounts payable and accrued liabilities

	December 31, 2022	December 31, 2021
	\$	\$
Trade accounts payable and accrued liabilities	2,120,541	1,808,566
Accrued payroll and related compensation	2,261,528	1,272,182
Government remittances	1,425,268	843,711
Royalties payable	215,057	139,553
	6,022,394	4,064,012

10. Loans payable

	Note	December 31, 2022	December 31, 2021
		\$	\$
Business Development Bank of Canada loan	(a)	-	29,160
		-	29,160
Current portion of loans payable		-	29,160
Long-term portion of loans payable		-	-
		-	29,160

- a) The Business Development Bank of Canada (“BDC”) loan bore interest at BDC’s floating base rate plus 3% and was due September 30, 2022. The loan was repayable in 1 monthly installment of principal of \$3,328 and 59 monthly installments of principal of \$3,240 plus interest, which began October 31, 2017. The loan was secured by a general security agreement with a second ranking security interest over all property of the Company except the property of Beautiful Information Limited which is pledged to Llyod’s Bank. During the year ended December 31, 2022, the Company paid off the loan for \$29,160 (year ended December 31, 2021 - \$38,880) in principal and \$982 (year ended December 31, 2021 - \$3,785) of interest expense.
- b) The Company had a Lloyd’s Bank (“Lloyd’s”) loan that bore interest at 2.5% fixed per annum and was due July 15, 2026. The loan was repayable in fixed monthly installments of GBP £937.50 of the principal and interest which began on July 15, 2020. The loan was secured by a general security agreement with a second ranking security interest over property of Beautiful Information Limited. During the year ended December 31, 2022, the Company paid off the loan in the amount of \$76,822 (GBP £45,108) in principal and \$967 (GBP £569) of interest expense.
- c) The Company has an agreement with The Bank of Nova Scotia (“Scotia”) to provide a \$6,000,000 operating credit limit, bearing interest at Scotia’s prime rate plus 1%. The Company also has available a \$27,000,000 revolving term facility, bearing interest at Scotia’s prime rate plus a spread per annum as follows: Funded debt/EBITDA greater than 2.5x plus 2.75%, Funded debt/EBITDA equal to or less than 2.5x plus 1.5%. The facilities are 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.

The Company is subject to maintain the following covenants:

- i) Funded Debt to EBITDA ratio, calculated on a trailing 12-month basis that is:
1. equal to or less than 3.75:1, from the Closing Date to June 30th, 2022;
 2. equal to or less than 3.00:1, from July 1, 2022 to June 30th, 2023; and
 3. equal to or less than 2.50:1, from July 1, 2023 and thereafter.

- ii) A Fixed Charge Coverage Ratio (calculated on a trailing 12-month basis that is) of not less than 1.20:1.

During the year ended December 31, 2022, the Company received and paid off \$9,999,982 (year ended December 31, 2021 - \$nil) in principal and \$354,618 (year ended December 31, 2021 - \$nil) of interest expense.

As at December 31, 2022, the Company is in compliance with all of its covenants, and has no debt outstanding.

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11. Contingent consideration

	\$
Balance, December 31, 2020	1,649,516
Additions through business combinations (Note 4)	1,118,126
Payments	(419,318)
Shares issued for contingent consideration (Note 14 (b)(i))	(274,264)
Accretion	11,510
Change in fair value	(128,270)
Effect of movements in exchange rates	(33,008)
Balance, December 31, 2021	1,924,292
Additions through business combinations (Note 4)	1,739,650
Payments	(1,516,310)
Accretion	15,552
Change in fair value	695,402
Effect of movements in exchange rates	(57,210)
Balance, December 31, 2022	2,801,376

12. Income taxes

a) Income tax (recovery) expense

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021 - 26.5%) to the effective tax rate is as follows:

	2022	2021
	\$	\$
Net loss before recovery of income taxes	1,306,717	(1,613,565)
Statutory income tax rate	26.50%	26.50%
Expected income tax (recovery)	346,280	(427,595)
Difference in foreign tax rates	(412,336)	(129,442)
Tax rate changes and other adjustments	347,867	(41,400)
Share based compensation and non-deductible expenses	302,203	455,030
Share issuance cost booked to equity	(318,579)	-
Acquisition costs	830,589	384,967
Other non-deductible expenses	70,560	112,854
Book to filing adjustment	(395,000)	(45,447)
Change in tax benefits not recognized	(679,503)	24,109
Income tax expense	92,081	333,076
	2022	2021
The Company's income tax expense is allocated as follows:	\$	\$
Current tax expense	289,337	175,600
Deferred tax expense	(197,256)	157,476
Income tax expense	92,081	333,076

Vitalhub Corp.
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12. Income taxes (continued)

b) Deferred tax balances

The following table summarizes the components of deferred tax:

	December 31, 2022	December 31, 2021
	\$	\$
Deferred income tax assets (liabilities)		
Deferred tax assets		
Non-capital losses carried forward	1,544,379	2,204,442
Property and equipment	153,497	167,776
Lease liabilities	210,542	176,215
Deferred tax liabilities		
Property and equipment	(65,375)	(17,862)
Right-of-use assets and net investment in sublease	(189,036)	(158,052)
Intangible assets	(7,199,177)	(4,548,876)
Net deferred tax liability	(5,545,170)	(2,176,357)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liabilities:

	2022	2021
	\$	\$
Balance at the beginning of the year	(2,176,357)	(804,191)
Recognized in profit/loss	197,256	(157,476)
Recognized in goodwill	(3,667,050)	(1,213,445)
Recognized in other comprehensive loss	100,981	(1,245)
Balance at the end of the year	(5,545,170)	(2,176,357)

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities.

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2022	2021
	\$	\$
Non-capital losses carried forward	2,644,542	6,372,677
Investment Tax Credits	555,313	531,592
Share issuance costs	1,954,423	1,489,013
SR&ED Pool from T661	1,634,812	1,326,807
Other temporary differences	267,283	129,282
Balance at the end of the year	7,056,373	9,849,371

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12. Income taxes (continued)

The Canadian non-capital loss carry forwards expire between 2032 and 2042 and the invest tax credits expire from 2029 to 2041. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses, the benefit of which has not been recognized on the consolidated financial statements, expire as follows:

Year	\$
2037	144,775
2038	408,408
2040	1,709,867
2042	381,492
	2,644,542

13. Leases

The following table reconciles the Company's operating lease obligations to the lease obligations recognized:

Right of use asset	Premise lease
Cost	\$
Balance, December 31, 2020	1,211,522
Additions	94,426
Balance, December 31, 2021	1,305,948
Additions	499,599
Effect of movements in exchange rates	(212,198)
Balance, December 31, 2022	1,593,349
Accumulated amortization	
Balance, December 31, 2020	326,114
Amortization	272,482
Balance, December 31, 2021	598,596
Amortization	342,863
Effect of movements in exchange rates	(114,577)
Balance, December 31, 2022	826,882
Net book value as at:	
December 31, 2021	707,352
December 31, 2022	766,467

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13. Leases (continued)

Lease liabilities	Premise lease
	\$
Balance, December 31, 2020	916,320
Additions	94,426
Financing costs	82,432
Payments	(329,826)
Total lease liabilities at December 31, 2021	763,352
Additions	499,599
Financing costs	29,431
Payments	(410,187)
Total lease liabilities at December 31, 2022	882,195
Current portion of lease liabilities	372,457
Long-term portion of lease liabilities	509,738
Total lease liabilities at December 31, 2022	882,195

The Company and its subsidiaries have entered into agreements to lease office premises until 2025. The annual rent expenses for premises consist of minimum rent and does not include variable costs. The minimum payments under all agreements are as follows:

	\$
2023	536,419
2024	462,621
2025	202,360
	1,201,400

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) On August 31, 2021, the Company issued 88,888 common shares for \$274,264 as part of the contingent consideration earnout for the acquisition of Transforming Systems Ltd.
- (ii) On April 21, 2022, the Company completed a bought deal offering under which 5,645,200 common shares were issued at \$3.10 per common share for total gross proceeds of \$17,500,120. The Company paid agent fees and commissions of \$952,286 and incurred additional costs of \$249,899 relating to professional and advisory services resulting in net proceeds of the bought deal of \$16,297,935.
- (iii) During the year ended December 31, 2022, the Company repurchased 91,600 of its common shares for \$215,417, under a share repurchase program.

The share repurchase program provides that the Company may, during the 12-month period commencing August 29, 2022 and ending August 28, 2023, purchase up to 1,302,007 common shares. The price which the Company will pay for any such shares will be the prevailing market price at the time of acquisition. The aggregate number of shares purchased under this agreement shall not exceed on a daily basis: 7,866 shares, and on an aggregate basis over the term of the repurchase program until the occurrence of a termination event: 1,302,007 common shares, subject to certain prescribed exceptions.

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14. Share capital (continued)

c) Share based compensation and share based payment reserve

A summary of changes in share-based compensation for the years ended December 31, 2022 and 2021 is as follows:

Measurement date	Number of stock options	Weighted average exercise price
	#	\$
Balance, December 31, 2020	2,196,274	1.92
Granted	442,704	3.02
Exercised	(150,775)	1.09
Forfeited	(20,000)	1.50
Balance, December 31, 2021	2,468,203	2.17
Granted	520,000	2.78
Exercised	(495,500)	1.50
Forfeited	(42,497)	2.03
Balance, December 31, 2022	2,450,206	2.45

The following tables summarize information about the Company's stock options outstanding at December 31, 2022 and December 31, 2021:

Exercise price	December 31, 2022			December 31, 2021		
	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
\$1.20	-	-	-	84,500	84,500	0.02
\$1.25	-	-	-	75,000	75,000	0.88
\$1.30	-	-	-	120,000	120,000	0.76
\$1.45	20,000	20,000	0.99	20,000	20,000	1.99
\$1.50	205,000	205,000	5.21	205,000	205,000	1.33
\$1.65	90,000	90,000	4.91	201,000	201,000	0.90
\$1.80	125,000	125,000	1.02	125,000	117,254	2.02
\$1.95	-	-	-	97,500	97,500	1.01
\$2.03	532,503	414,224	2.63	542,500	241,126	3.63
\$2.33	95,000	-	4.87	-	-	-
\$2.66	555,000	385,421	2.91	555,000	200,417	3.91
\$2.67	80,000	-	4.62	-	-	-
\$2.77	150,000	-	4.36	-	-	-
\$2.85	50,000	50,000	3.75	50,000	50,000	4.75
\$2.90	157,703	56,949	3.88	157,703	-	4.88
\$2.98	40,000	-	4.32	-	-	-
\$3.05	70,000	-	4.10	-	-	-
\$3.07	85,000	-	4.25	-	-	-
\$3.08	-	-	-	40,000	33,330	4.10
\$3.15	195,000	97,497	3.50	195,000	-	4.50
	2,450,206	1,444,091	3.45	2,468,203	1,445,127	2.91

During the year ended December 31, 2022, 520,000 stock options were issued (December 31, 2021 – 442,704 stock options) with a weighted average aggregate fair value of \$912,217 at the date of grant (2021 - \$926,384) to directors and employees.

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14. Share capital (continued)

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

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

	2022	2021
Share price	\$2.67 - \$3.07	\$2.85 - \$3.15
Exercise price	\$2.67 - \$3.07	\$2.85 - \$3.15
Expected volatility	72% - 84%	90% - 100%
Expected option life	5 years	5 years
Expected dividend yield	-	-
Expected forfeiture rate	-	-
Risk-free interest rate	1.23% - 3.52%	0.33% - 1.33%

During the year ended December 31, 2022, the Company recognized stock-based compensation expense of \$1,140,387 (2021 - \$1,717,094).

d) Deferred share units payment reserve

During the year ended December 31, 2022, no deferred share units were issued (year ended December 31, 2021, 87,414 deferred share units were issued with a weighted average aggregate fair value of \$253,500 at the date of grant to key management).

The fair value of the deferred share units granted for the year ended December 31, 2021 were determined using the share price at the date of grant of \$2.90.

During the year ended December 31, 2022 no stock based compensation expense was recognized (year ended December 31, 2021 - \$253,500, was recognized related to fully vested deferred share units).

e) Warrants

A summary of changes in warrants for the years ended December 31, 2022 and 2021 is as follows:

Measurement date	Number of warrants #	Weighted average exercise price \$
Balance, December 31, 2020	2,291,250	3.27
Exercised	(1,214,250)	2.78
Balance, December 31, 2021	1,077,000	3.82
Exercised	(45,750)	2.10
Expired	(1,031,250)	3.90
Balance, December 31, 2022	-	-

During the year ended December 31, 2022, 45,750 warrants were exercised for proceeds of \$96,075 (year ended December 31, 2021 - 1,214,250 warrants were exercised for proceeds of \$3,374,925).

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14. Share capital (continued)

e) Warrants (continued)

The following table summarizes information about the Company's warrants outstanding at December 31, 2022 and December 31, 2021:

Exercise price	December 31, 2022			December 31, 2021		
	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
\$2.10	-	-	-	45,750	45,750	0.21
\$3.90	-	-	-	1,031,250	1,031,250	0.05
	-	-	-	1,077,000	1,077,000	0.06

15. Expenses by nature

	For the year ended December 31, 2022	For the year ended December 31, 2021
	\$	\$
Business acquisition, restructuring and integration costs	2,438,904	1,844,212
Computer expenses	1,283,227	808,147
Consulting	2,334,750	1,777,159
Depreciation and amortization	3,872,953	2,676,157
Facilities	304,782	159,656
Foreign currency (gain) loss	150,399	137,927
Loss (gain) on change in fair value of contingent consideration	695,402	(128,270)
Hardware	660,152	530,844
Hosting and software licenses	1,601,562	1,176,555
Insurance	168,959	106,247
Interest and accretion	70,345	52,884
Investor relations	219,650	182,126
Marketing	434,615	247,407
Office expenses	219,391	176,804
Other	355,501	358,652
Professional fees	908,184	782,294
Recruiting	148,611	74,720
Royalties	315,742	233,702
Salaries, wages and benefits	20,355,200	13,104,429
Stock based compensation	1,140,387	1,717,094
Transfer agent filing fees	317,026	49,740
Travel	668,355	209,672
	38,664,097	26,278,158

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16. 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:

	For the year ended December 31, 2022	For the year ended December 31, 2021
	\$	\$
Salaries and short-term employee benefits	895,697	728,498
Stock-based compensation	131,179	433,328
	1,026,876	1,161,826

17. Segmented information

The Company has identified one operating segment for its operations related to healthcare information systems in the mental health, long-term care, community health service and hospital sectors. 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 years ended December 31, 2022 and 2021 are as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021
	\$	\$
Canada	8,767,527	7,493,534
USA	1,091,685	1,163,092
United Kingdom	27,845,482	15,075,423
Australia	1,181,658	306,588
Western Asia	709,897	515,229
Rest of the world	374,565	110,727
Total revenues	39,970,814	24,664,593

The total non-current assets in each of these geographic locations as at December 31, 2022 and December 31, 2021 are as follows:

	December 31, 2022	December 31, 2021
	\$	\$
Canada	17,195,741	18,160,118
United Kingdom	50,363,314	31,434,997
USA	937	1,077
Sri Lanka	406,212	551,893
Australia	7,653,968	-
Total non-current assets	75,620,172	50,148,085

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18. Government subsidies

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 businesses has come in various forms including Canada Emergency Wage Subsidy (CEWS) and the Canada Emergency Rent Subsidy (“CERS”) 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 September 15, 2020 to October 23, 2021 for eligible entities that have experienced a reduction in gross revenue for the period as determined by the program.

The CERS program provides government assistance in the form of rent subsidy for qualifying businesses faced with specified levels of revenue decline. The CERS program is applicable from September 27, 2020 – October 23, 2021 for eligible entities that have experienced a reduction in gross revenue for the period as determined by the program.

The Company qualified and received \$454,105 for the year ended December 31, 2021 for the CEW program and \$78,123 for the year ended December 31, 2021 for the CER program.

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.

19. Risk management arising from financial instruments

a) Credit risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. The Company’s principal financial assets that expose it to credit risk are receivables, the Company mitigates this risk by monitoring the credit worthiness of its customers.

The Company recognizes a provision for expected credit losses based on its assessment of probability of specific losses, estimates of future individual exposures and provisions based on historical experience.

The following is the breakdown of the aging of trade receivables:

	December 31, 2022	December 31, 2021
	\$	\$
Trade receivables aging:		
0-30 days	6,066,154	2,768,033
31-60 days	1,402,426	907,119
61-90 days	766,316	566,659
Greater than 90 days	1,889,926	1,034,665
	10,124,822	5,276,476
Provision for doubtful accounts	(363,235)	(287,469)
Net trade receivables	9,761,587	4,989,007

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19. Risk management arising from financial instruments (continued)

a) Credit risk (continued)

At December 31, 2022, of the Company's trade receivables, three customers accounted for 28% (2021 – three customers for 11%).

The Company applies the simplified approach to provide for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The expected credit loss provision is based on the Company's historical collections and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate for each aging category of trade receivables as at December 31, 2022 and December 31, 2021.

December 31, 2022	Total	0-30 days	31-60 days	61-90 days	>90 days
Default rates		1.48%	2.47%	3.00%	11.42%
Trade receivables	\$ 10,124,822	\$ 6,066,154	\$ 1,402,426	\$ 766,316	\$ 1,889,926
Expected credit loss	\$ 363,235	\$ 89,780	\$ 34,640	\$ 22,948	\$ 215,867

December 31, 2021	Total	0-30 days	31-60 days	61-90 days	>90 days
Default rates		1.80%	2.65%	12.50%	13.80%
Trade receivables	\$ 5,276,476	\$ 2,768,033	\$ 907,119	\$ 566,659	\$ 1,034,665
Expected credit loss	\$ 287,469	\$ 49,825	\$ 24,039	\$ 70,832	\$ 142,773

b) Foreign exchange risk

Foreign exchange risk arises when financial assets or financial liabilities are denominated in a currency that is not the Company's functional currency.

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises on recognized financial assets and financial liabilities, principally cash, trade receivables and accounts payable and accrued liabilities.

The Company is exposed to foreign exchange risk arising on its net investment in foreign operations. For the year ended December 31, 2022, the Company recognized a foreign currency exchange loss of \$306,262 (year ended December 31, 2021 an exchange loss of \$168,128) within other comprehensive income (loss). The Company estimates that an appreciation of the CAD dollar of 10% relative to other currencies would result in a decrease of approximately \$268,000 in earnings before income taxes while a depreciating CAD will have the opposite impact.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's revolving demand facilities have variable interest rates. Changes in the lending institutions prime lending rates can cause fluctuations in interest payments and cash flows.

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19. Risk management arising from financial instruments (continued)

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due, by continuously monitoring actual and forecasted cash flows. The Company has an operating credit limit up to \$6,000,000 in place should it be required to meet temporary fluctuations in cash requirements. At December 31, 2022, the Company had cash of \$17,452,210 (2021 - \$16,389,982) to settle current liabilities of \$23,817,630 (2021 - \$14,733,693).

	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	After 5 years
Trade and other payables	\$ 6,022,394	\$ 6,022,394	\$ -	\$ -	\$ -
Contingent consideration	2,801,376	1,681,281	1,120,095	-	-
Lease commitments	1,201,400	536,419	664,981	-	-
	\$ 10,025,170	\$ 8,240,094	\$ 1,785,076	\$ -	\$ -

e) Management of capital

The Company's objective of managing capital, comprising of shareholder's equity, is to ensure its continued ability to operate as a going concern. The Company manages its capital structure and makes changes to it based on economic conditions. Management and the Board of Directors review the Company's capital management approach on an ongoing basis and believe this approach, given the relative size of the Company, is reasonable. The Company is no subject to externally imposed capital requirements. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2022.

20. Subsequent events

a) *Amalgamations*

On January 1, 2023, Oculys Health Informatics Inc., a wholly owned Subsidiary of the Company was amalgamated with Vitalhub Corp.

On January 1, 2023, Intouch with Health Limited, Transforming Systems Limited., Alamac Limited, and Beautiful Information Limited, wholly owned subsidiaries of the Company were amalgamated with Vitalhub UK Limited.

b) *Acquisition of Coyote Software Corporation*

On January 20, 2023, the Company acquired all of the issued and outstanding shares of Coyote Software Corporation ("Coyote"). Coyote is a Canadian based company, that specializes in tailored software solutions that streamline the workflows of health and social service organizations.

Total closing consideration for the acquisition, subject to any post-closing working capital was approximately \$2,265,528 in cash subject to a 15% escrow for six months and \$108,000 was paid with 38,163 common shares of Vitalhub which are subject to a four month hold from their date of issuance.