# CloudMD Software & Services Inc.

**Consolidated Financial Statements**
Years ended December 31, 2023 and 2022

(Expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CloudMD Software & Services Inc.

***Opinion***

We have audited the consolidated financial statements of CloudMD Software & Services Inc. (the Entity) which comprise:

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of net loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

***Basis for Opinion***

We conducted our audit 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 Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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.

***Material Uncertainty Related to Going Concern***

We draw attention to Note 2(b) in the financial statements, which indicates that the Entity has incurred losses from continuing operations of $76,557 and has generated negative cash flows from operations of $11,575 for the year ended December 31, 2023. Furthermore, the Entity was not in compliance with certain of its debt covenants as at December 31, 2022 and has not received a waiver as at December 31, 2023. The debt is maturing on June 25, 2024 and the Entity does not have sufficient cash to repay it.

As stated in Note 2(b) in the financial statements, these events or conditions, along with other matters as set forth in Note 2(b) in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "***Material Uncertainty related to Going Concern***" section of the audit report, we have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

***Evaluation of Impairment of Goodwill and Indefinite life Intangible Assets for the Health and Wellness Services Cash Generating Unit***

***Description of the matter***

We draw attention to Notes 2(d), 3, and 8 to the financial statements. The goodwill and indefinite life intangible asset balances are $Nil and $46,332 thousand, respectively. The Entity tests goodwill and intangibles with indefinite useful lives for impairment annually as at December 31 and when circumstances indicate that the carrying value of a cash generating unit may be impaired. Impairment is determined by assessing the recoverable amount of each cash generating unit "CGU" or operating segment to which the goodwill and indefinite life intangible assets relate. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. The recoverable amount of the CGU is the higher of its fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). The recoverable amount of the Health and Wellness Services CGU was determined based on a discounted cash flow ("DCF") model. The recoverable amount is sensitive to the forecasted revenue, forecasted cost of sales, forecasted general and administrative expenses, terminal value growth rate and discount rate significant assumptions applied in the DCF model. During the year ended December 31, 2023, the Entity recorded an impairment loss of $54,222 thousand related to the Health and Wellness Services CGU.

***Why the matter is a key audit matter***

We identified the evaluation of impairment of goodwill and indefinite life intangible assets of the Health and Wellness Services CGU as a key audit matter. This matter represented an area of significant risk of material misstatement given the high degree of estimation uncertainty in determining the recoverable amount of the CGU. Significant auditor judgment and specialized skills and knowledge were required to evaluate the application of the above noted significant assumptions used in the determination of the recoverable amount. As a result, significant auditor judgement was required in evaluating the results of our audit procedures.

***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

- We compared the Entity's historical revenues, cost of sales and general and administrative expenses forecasts to actual results to assess the Entity's ability to accurately forecast.
- We evaluated the appropriateness of the Entity's forecasted revenues, forecasted cost of sales and general and administrative expenses by comparing to historical actual results. We considered changes in conditions and events affecting the Entity to assess the adjustments made to historical results in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rate and the terminal growth rate. The procedures performed include the following:

- Evaluating the Entity's discount rate by comparing against discount rate ranges that were independently developed using publicly available market and industry data.
- Evaluating the terminal growth rate by considering the overall macroeconomic conditions of the CGU.

***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at 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 in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the 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 the 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 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 Entity'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 Entity'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 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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the 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 auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Pauline Wu.

May 15, 2024
Vancouver, Canada

CLOUDMD SOFTWARE & SERVICES INC.
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

| | Note | December 31, 2023 | December 31, 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $8,930 | $24,058 |
| Restricted cash | 9 | 2,500 | - |
| Trade and other receivables | 5 | 15,652 | 18,780 |
| Inventory | | 17 | 979 |
| Prepaid expenses, deposits and other | | 3,764 | 4,622 |
| | | 30,863 | 48,439 |
| Assets held for sale | 16 | 1,810 | 3,794 |
| **Total current assets** | | 32,673 | 52,233 |
| Deposits | | 113 | 113 |
| Property and equipment | 7 | 4,791 | 7,751 |
| Intangible assets | 8 | 46,332 | 84,558 |
| Goodwill | 8 | - | 41,784 |
| **Total assets** | | $83,909 | $ 186,439 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable, accrued liabilities and other | | 17,901 | 20,911 |
| Deferred revenue | | 2,447 | 2,256 |
| Contingent consideration | | - | 2,177 |
| Contingent liability | | - | 1,200 |
| Current portion of lease liabilities | 10 | 1,706 | 2,015 |
| Current portion of long-term debt | 9 | 16,474 | 19,617 |
| | | 38,528 | 48,176 |
| Liabilities directly associated with the assets held for sale | 16 | 715 | 5,917 |
| **Total current liabilities** | | 39,243 | 54,093 |
| Contingent consideration | | - | 241 |
| Lease liabilities | 10 | 2,566 | 4,290 |
| Deferred tax liability | 18 | 6,088 | 11,609 |
| Liability to non-controlling interests | | - | 743 |
| Long-term debt | 9 | 2,589 | 106 |
| **Total liabilities** | | 50,486 | 71,082 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 12 | 308,322 | 304,817 |
| Reserves | | 16,216 | 13,143 |
| Shares under escrow | | 596 | 596 |
| Contingent shares issuable | | - | 4,436 |
| Accumulated other comprehensive loss | | (28) | 186 |
| Deficit | | (291,683) | (208,848) |
| **Equity attributable to equity holders of the parent** | | 33,423 | 114,330 |
| **Non-controlling interest** | | - | 1,027 |
| **Total shareholders' equity** | | 33,423 | 115,357 |
| **Total liabilities and shareholders' equity** | | $83,909 | $186,439 |

Going Concern *(Note 2)*
Litigation and other contingencies *(Note 19)*
Subsequent events *(Note 20)*
Approved and authorized for issuance by the Board of Directors on May 15, 2024.

***"Karen Adams"***
Karen Adams, CEO

***"Gaston Tano"***
Gaston Tano, Audit and Risk Committee Chair

CLOUDMD SOFTWARE & SERVICES INC.
Consolidated Statements of Net Loss and Comprehensive Loss
(Expressed in thousands of Canadian dollars, except per share amounts)

| | Note | Year ended December 31, 2023 | Year ended December 31, 2022* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 17 | **$ 90,905** | $ 99,454 |
| Cost of sales | | **55,782** | 64,683 |
| **Gross profit** | | **$ 35,123** | $ 34,771 |
| Expenses | | | |
| Sales and marketing | | **4,288** | 6,505 |
| Research and development | | **1,536** | 3,612 |
| General and administrative | | **33,354** | 35,726 |
| Share-based compensation | 12 | **867** | 1,273 |
| Amortization of intangible assets | 8 | **11,555** | 10,649 |
| Depreciation of property and equipment | 7 | **2,434** | 2,810 |
| Acquisition and divestiture-related, integration and restructuring costs | | **3,411** | 11,358 |
| Impairment | | **59,888** | 81,275 |
| **Total expenses** | | **117,333** | 153,208 |
| **Operating Loss** | | **$ (82,210)** | $ (118,437) |
| Other income | | **1,142** | 446 |
| Change in fair value of contingent consideration | | **687** | 6,564 |
| Change in fair value of liability to non-controlling interest | | **(549)** | - |
| Change in contingent liability | 19 | **760** | - |
| Loss on sale of investment in joint venture | | **-** | (221) |
| Finance costs | | **(1,713)** | (2,097) |
| Net loss before taxes from continuing operations | | **(81,883)** | (113,745) |
| Income tax recovery | 18 | **5,326** | 1,727 |
| **Net loss for the year from continuing operations** | | **(76,557)** | (112,018) |
| **Discontinuing operations** | | | |
| Loss after tax for the year from discontinuing operations | 16 | **(6,277)** | (45,989) |
| **Net loss for the year** | | **$ (82,834)** | $ (158,007) |
| Other comprehensive loss | | | |
| *Item that may be reclassified to income in subsequent periods* | | | |
| Exchange (loss) gain on translation of foreign operations | | **(214)** | 413 |
| **Total comprehensive loss for the year** | | **$ (83,048)** | $ (157,594) |
| Net loss attributable to: | | | |
| Equity holders of the Company | | **$ (82,835)** | $ (158,243) |
| Non-controlling interest | | **1** | 236 |
| Total comprehensive loss attributable to: | | | |
| Equity holders of the Company | | **$ (83,049)** | $ (157,830) |
| Non-controlling interest | | **1** | 236 |
| Weighted average number of common shares, basic and diluted | | **299,369,871** | **288,190,051** |
| Loss per share, basic and diluted | | **(0.28)** | **(0.55)** |
| Loss per share, basic and diluted from continuing operations | | **(0.26)** | **(0.39)** |

* Comparative information has been re-presented due to discontinued operations. See Note 16.

CLOUDMD SOFTWARE & SERVICES INC.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars, except share numbers)

| | Share capital | Reserves | Shares under escrow | Contingent shares issuable | Accumulated other comprehensive gain/ (loss) | Deficit | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2021** | **$ 241,395** | **$ 11,932** | **$ 596** | **$ 8,510** | **$ (227)** | **$ (52,633)** | **$ 791** | **$ 210,364** |
| Shares issued/issuable for business | 53,176 | - | - | - | - | - | - | 53,176 |
| Shares returned on sale of investment in joint venture | (86) | - | - | - | - | - | - | (86) |
| Gain on modification in contingent shares issuable | - | - | - | (2,028) | - | 2,028 | - | - |
| Contingent shares issued | 3,333 | - | - | (3,333) | - | - | - | - |
| Contingent consideration settled in shares | 6,616 | - | - | - | - | - | - | 6,616 |
| Modification in contingent consideration | - | - | - | 1,302 | - | - | - | 1,302 |
| Exercise of stock options | 87 | (37) | - | - | - | - | - | 50 |
| Exercise of warrants | 281 | (5) | - | - | - | - | - | 276 |
| Shares issued for services | 15 | - | - | (15) | - | - | - | - |
| Share-based compensation | - | 1,253 | - | - | - | - | - | 1,253 |
| Other comprehensive loss | - | - | - | - | 413 | - | - | 413 |
| Net profit/(loss) for the period | - | - | - | - | - | (158,243) | 236 | (158,007) |
| **Balance, December 31, 2022** | **$ 304,817** | **$ 13,143** | **$ 596** | **$ 4,436** | **$ 186** | **$ (208,848)** | **$ 1,027** | **$ 115,357** |
| **Balance, December 31, 2022** | **$ 304,817** | **$ 13,143** | **$ 596** | **$ 4,436** | **$ 186** | **$ (208,848)** | **$ 1,027** | **$ 115,357** |
| Contingent consideration settled in shares | 765 | - | - | - | - | - | - | 765 |
| Contingent shares issued | 2,706 | - | - | (2,706) | - | - | - | - |
| Share-based compensation | 34 | 315 | - | - | - | - | - | 349 |
| Transfer from non-controlling interest | - | 1,028 | - | - | - | - | (1,028) | - |
| Transfer of contingent consideration | - | 1,730 | - | (1,730) | - | - | - | - |
| Other comprehensive loss | - | - | - | - | (214) | - | - | (214) |
| Net loss for the period | - | - | - | - | - | (82,835) | 1 | (82,834) |
| **Balance, December 31, 2023** | **$ 308,322** | **$ 16,216** | **$ 596** | **-** | **$ (28)** | **$ (291,683)** | **-** | **$ 33,423** |

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

(Expressed in thousands of Canadian dollars)

| | | Year ended | |
|---|---|---|---|
| | Note | December 31, 2023 | December 31, 2022 |
| **Operating activities** | | | |
| Net loss for the period | | **$ (82,834)** | $ (158,007) |
| Adjustments for | | | |
| Interest expense on lease liabilities | 10 | **192** | 404 |
| Interest expense on long term debt | | **1,544** | 1,524 |
| Deferred tax recovery | | **(5,521)** | (4,961) |
| Depreciation and Amortization | | **13,989** | 15,444 |
| Share-based compensation | | **867** | 1,273 |
| Change in fair value of contingent consideration | | **(687)** | (6,564) |
| Change in fair value of liability to non-controlling interest | | **549** | - |
| Change in fair value of contingent liability | | **(760)** | - |
| Loss on sale in investment in joint venture | | **-** | 221 |
| Gain on sale of subsidiary | 16 | **(340)** | (1,113) |
| Impairment | | **64,106** | 127,901 |
| Foreign exchange (gain) loss | | **(224)** | 151 |
| Other | | **-** | (117) |
| Net change in non-cash working capital | 13 | **(2,456)** | (4,079) |
| **Net cash used in operating activities** | | **(11,575)** | (27,923) |
| **Investing activities** | | | |
| Acquisition of businesses, net of cash acquired | | **-** | 15,513 |
| Increase in restricted cash | | **(2,500)** | - |
| Payment of contingent consideration | | **(966)** | (1,183) |
| Cash and dividend received from joint venture | | **-** | 103 |
| Payments received from net investment in sublease | | **-** | 168 |
| Purchase of intangible assets | 8 | **(1,947)** | 6,573 |
| Proceeds from disposal of business | 16 | **7,600** | (3,270) |
| Purchase of property and equipment | 7 | **(67)** | (324) |
| Acquisition of non-controlling interest | | **(1,292)** | - |
| **Net cash provided by investing activities** | | **828** | 17,580 |
| **Financing activities** | | | |
| Proceeds from exercise of stock options | | **-** | 50 |
| Proceeds from exercise of warrants | | **-** | 276 |
| Proceeds from long-term debt, net of financing cost | 9 | **1,091** | 627 |
| Payment of long-term debt | | **(3,295)** | (8,391) |
| Payment of lease liabilities | | **(2,177)** | (3,243) |
| **Net cash used in financing activities** | | **(4,381)** | (10,681) |
| **Net decrease cash and cash equivalents** | | **$ (15,128)** | $ (21,024) |
| **Cash and cash equivalents, beginning of period** | | **24,058** | 45,082 |
| **Cash and cash equivalents, end of period** | | **$ 8,930** | $ 24,058 |

Supplemental cash flow information (*Note 13*)

## 1. CORPORATE INFORMATION

CloudMD Software & Services Inc. ("CloudMD" or the "Company") is a publicly traded company listed on the TSX Venture Exchange ("TSXV") under the trading symbol DOC, and is incorporated under the laws of British Columbia, Canada. The Company's registered office is 2200 HSBC Building, 885 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3EH. These consolidated financial statements comprise the Company and its subsidiaries.

CloudMD is a healthcare services provider that uses a comprehensive personalized approach to support an individual's mental, physical, and social issues. CloudMD has a complete health ecosystem that connects all points of the healthcare journey through one centralized platform.

## 2. MATERIAL ACCOUNTING POLICIES

### a) <u>Basis of Preparation</u>

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issue by the Board of Directors on May 15, 2024.

The consolidated financial statements are presented in Canadian dollars ("CAD") except when otherwise indicated. Certain prior period's amounts have been reclassified to conform to the current year's presentation. These consolidated financial statements have been presented in thousands of dollars unless otherwise noted.

### b) <u>Going Concern</u>

The consolidated financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred losses and has generated negative cash flows from operations. For the year ended December 31, 2023, the Company recorded a net loss from continuing operations of $76,557 and cash used in operations of $11,575. As at December 31, 2023, the Company had cash and cash equivalents of $8,930, negative working capital of $7,665 and debt of $19,063.

As at December 31, 2022, the Company was not in compliance with certain financial covenants under the Facilities. The lender has not waived their right to demand repayment of the debt under the debt covenant breach. Additionally, the Facilities mature on June 25, 2024. As of the date that these consolidated financial statements were approved and authorized for issuance, the Company's projected cash flows are not sufficient to repay the full amount of the Facilities on the maturity date of June 25, 2024 and to fund its continuing operations. To continue as a going concern, the Company must generate sufficient operating cash flows and obtain additional financing to fund its operations and repay the Facilities. After evaluating the uncertainties, the Company considers it appropriate to continue to adopt the going concern basis in preparing its consolidated financial statements. These conditions indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these annual consolidated financial statements, adjustments may be necessary to the carrying value of assets and liabilities and the reported expenses, and these adjustments could be material.

### c) <u>Basis of Consolidation</u>

The consolidated financial statements comprise of the financial statements of the Company and its subsidiaries as at December 31, 2023. All inter-company transactions and balances have been eliminated on consolidation.

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiaries for the years ended December 31, 2023, and 2022. As at December 31, 2023, the Company owned 27 subsidiaries that are wholly-owned or controlled by virtue of a management services agreement, based in Canada and the USA.

**d) <u>Material Accounting Policies</u>**

***Cash and cash equivalents***

Cash and cash equivalents are financial assets measured at amortized cost, which approximates fair value. Cash and cash equivalents in the statement of financial position comprise of cash at major financial institutions and short-term highly liquid deposits, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

***Property and equipment***

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is calculated using the rates and methods below:

| Type | Method | Rate or useful life |
|---|---|---|
| Equipment and other | Declining balance | 20%-55% |
| Computers | Declining balance | 55% |
| Leasehold improvements | Straight-line | 5 years |

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of net loss and comprehensive loss when the asset is derecognized.

The residual values, useful lives, and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

***Leases***

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration.

(i) Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets* – The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

*Lease liabilities* – At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

*Short-term leases and leases of low-value assets* – The Company applies the short-term lease recognition exemption to its short-term leases (defined as leases with a lease term of 12 months or less). The Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

***Intangible assets***

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Development costs are capitalized only if the costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortization expense on intangible assets with finite lives is recognized in the statement of net loss and comprehensive loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit ("CGU") level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of net loss and comprehensive loss.

A summary of the policies applied to the Company's intangible assets is, as follows:

| Type | Method | Useful life |
|---|---|---|
| Content license | None | Indefinite |
| Brand | None | Indefinite |
| Customer relationships | Straight-line | 10 years |
| Technology platforms | Straight-line | 5-8 years |
| Therapist network | Straight-line | 2 years |
| Non-compete | Straight-line | 3 years |

***Business combinations and goodwill***

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the statement of net loss and comprehensive loss.

The Company determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognized in the statement of net loss and comprehensive loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in statement of net loss and comprehensive loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and the fair value of identifiable assets acquired and liabilities assumed. To the extent the fair value of aggregate consideration transferred is less than the fair value of net identifiable tangible and intangible assets, the difference is recognized in income immediately as a gain on bargain purchase. Goodwill is subsequently measured at cost less accumulated impairment losses. Acquisition costs associated with business combination activities are expensed in the period incurred.

***Impairment of non-financial asset***

The Company assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested at the cash generating unit ("CGU") level. When the carrying amount of an asset or CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU or operating segment to which the goodwill and intangible assets relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

***Financial instruments***

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company's financial assets and liabilities are classified as follows:

| **Asset or liability** | **Classification** |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Trade and other receivables | Amortized cost |
| Deposits | Amortized cost |
| Accounts payable, accrued liabilities and other | Amortized cost |
| Contingent consideration | FVTPL |
| Contingent liability | FVTPL |
| Liability to non-controlling interests | FVTPL |
| Long-term debt | Amortized cost |

(ii) Initial recognition and measurement

*Financial assets at amortized cost* – With the exception of trade and other receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus transaction costs. Trade and other receivables that do not contain a significant financing component are measured at the transaction price. Financial assets at amortized cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognized in statement of net loss and comprehensive loss when the asset is derecognized, modified or impaired.

*Financial assets at FVTPL* – Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of net loss and comprehensive loss.

*Financial liabilities* – All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of net loss and comprehensive loss. Contingent consideration arising from business combinations are measured at fair value at initial recognition and subsequently at FVTPL.

The Company determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statement of net loss and comprehensive loss, as an impairment loss (or recovery), the amount of expected credit losses (or recovery) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

*Financial assets* – The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

*Financial liabilities* – The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

***Non-controlling interest***

Non-controlling interest is measured at its proportionate share of the acquiree's identifiable net assets or liabilities. Net income or loss and comprehensive income or loss for the period are allocated between non-controlling interest and shareholders of the parent. Non-controlling interest in subsidiaries must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

***Government grants***

Government grants, such as investment tax credits ("ITCs") or below-market interest rate loans, are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as a reduction of the related asset.

***Loss per share***

Basic loss per share is computed by dividing the loss for the period from continuing operations by the weighted average number of common shares outstanding during the period. Contingently returnable escrow shares are removed from the calculation.

For diluted per share computations, assumptions are made regarding potential common shares outstanding during the period. The weighted average number of common shares is increased to include the number of additional common shares that would be outstanding using the treasury stock method. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

***Revenue recognition***

Revenue is recognized upon transfer of control of promised products or services to the customer at the consideration which the Company has received or expects to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. The Company determines the amount of revenue to be recognized through application of the following steps: identification of the contract, or contracts with a customer; identification of the performance obligations in the contract; determination of the transaction price; allocation of the transaction price to the performance obligations in the contract; and recognition of revenue when or as the Company satisfies the performance obligations.

Deferred revenue relates to payments received in advance of performance under contracts with customers.

***Services***

The Company recognizes revenue from the rendering of medical services and referrals. They are comprised of patient services, medical assessments and other medical services to include medical services and medical staffing, occupational health, employer services, employee assistance programs, absence and disability management, referral services, subscriptions, and consulting.

Medical assessment revenue in the Company's Health and Wellness Services division is revenue earned at a point in time. The performance obligation is to provide medical assessment services to customers such as corporate customers, insurance companies and legal firms. These services are generally considered to be distinct as they are specific to the customer's medical requirements. Payment is generally collected within two months of completion of the assessment.

Other medical services revenue is mainly included in the Health and Wellness Services and is earned when the performance obligation is complete. The fixed-fee subscription contracts include a single performance obligation to stand ready to provide asynchronous therapist assisted therapy. On fixed-fee subscription arrangements, where the provision of service is characterized by an indeterminate number of acts, revenue is recognized on a straight-line basis over the term of the contract. Where the Company stands ready to provide the service, management recognizes revenue based on time elapsed and thus ratably over the service period. Other contracts with customers often include performance obligations to transfer multiple services to a customer.  Each service is considered to be distinct as the customer can benefit from the performance obligation on its own; it is separately identifiable in the contract; and the Company promises to deliver outputs which are billed by the hour, month, or by the service. Services are typically billed and recognized on a bi-monthly basis and collected within 60 days.

***Software as a Service***

The Company recognizes revenue from the sale of medical software services from software as a service ("SaaS"), software development, and sponsorship, which provides customers with the ability to display their content on the Company's platform. SaaS revenue is recognized over time, in the period the performance obligation is satisfied, on the basis of the actual service provided as a proportion of the total services to be provided. The stage of completion for determining the amount of revenue to recognize is based on the time elapsed. Software development revenue is recognized over time based on costs incurred, in the period performance obligations are met. Revenue from fixed price contracts is recognized based on the progress towards completion of performance obligations, and measurement is based on time and materials incurred to date in comparison with the total budgeted outputs. The output method based on milestones is used when the contractual terms align with the Company's performance. Sponsorship revenue is recognized over time, as the performance obligations are completed. SaaS and software development revenue is typically billed in advance and is recognized over the contract term beginning on the date that the service is made available to the customer. Sponsorship revenue is billed and recognized over time in the month the customer benefits form the service.

***Costs to obtain a contract with a customer***

Costs to obtain customer contracts represent commissions incurred and would not otherwise have been incurred, are incremental costs and capitalized and amortized over the term of the contract. Incremental costs are expensed when incurred if the contract term is less than one year.

***Share-based compensation***

Employees, directors and external service providers of the Company receive remuneration in the form of share-based compensation, whereby employees, directors and external service providers render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the Black-Scholes valuation model. That cost is recognized in share-based compensation expense, together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of net loss and comprehensive loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based compensation. Otherwise, share-based compensations are measured at the fair value of the goods or services received.

***Deferred Share Units ("DSUs") and Restricted Share Units ("RSUs")***

DSUs and RSUs are settleable in cash or equity at the option of the Company. The classification of DSUs and RSUs is determined based on whether the Company has a present obligation to settle the awards in cash. Cash settled awards are measured initially at fair value based on the closing price of the Company's common shares preceding the day that the awards are granted. The fair value of the awards is recognized as a current liability in the statement of financial position and as a share-based compensation expense in the statement of net loss and comprehensive loss. The liability is remeasured to fair value based on the market price of the Company's common shares at each reporting date up to and including the settlement date, with changes in fair value recognized in share-based compensation expense in the statement of net loss and comprehensive loss. Equity settled awards are recorded at their fair value on the date of grant based on the closing price of the Company's common shares preceding the date that the awards are granted and recognized in share-based compensation expense, together with a corresponding increase in equity, over the vesting period.

***Non-current assets held for sale and discontinued operations***

The Company classifies non-current assets and liabilities and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and liabilities and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of net loss and comprehensive loss.
Additional disclosures are provided in Note 16. All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

***Income taxes***

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

***Foreign currency translation***

The Company's consolidated financial statements are presented in Canadian dollars, which is also the parent company's functional currency. The functional currency is the currency of the primary economic environment in which an entity operates and has been determined for each entity within the Company. For each entity, the Company determines the functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The functional currency of CloudMD's Canadian subsidiaries is the Canadian dollar. The functional currency of the Company's United States ("US") subsidiaries is the US dollar ("USD").

The Company uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

(ii) Foreign operations

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at average exchange rates for the period. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

***Adoption of new accounting standards***

In February 2021, the IASB published a narrow scope amendment to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information', requiring companies to disclose their material accounting policies rather than their significant accounting policies. The amendments define what is 'material accounting information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. The amendments apply for annual reporting periods beginning on or after January 1, 2023, and applied prospectively. The Company adopted these amendments, which did not result in any changes to the Company's accounting policies themselves, however they impacted the accounting policy information disclosed in the Company's consolidated financial statements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, were adopted effective January 1, 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively, while changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The adoption of these amendments did not have an impact on our consolidated financial statements.

***Accounting standards issued but not yet effective***

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

*Amendments to IAS 1: Classification of Liabilities as Current or Non-current*

The amendments to paragraph 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current is based on rights that are in existence at the end of the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

The Company does not anticipate significant impact upon adoption of this amendment.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

***Use of critical accounting estimates and assumptions***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur. Information about critical estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is as follows:

*Impairment of non-financial assets* – Impairment exists when the carrying value of an asset or cash generating unit or operating segment exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the forecast for the next five years. The recoverable amount is sensitive to the forecasted revenue, forecasted cost of sales and general and administrative expenses, terminal value growth rate and discount rate significant assumptions applied in the DCF models. For the comparable period, the recoverable amount was also sensitive to the forecasted revenue and implied revenue multiples calculated from observable market prices assumptions applied in the FVLCD calculations. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Company.

*Recognition of contingent consideration* – In certain acquisitions, the Company may include contingent consideration which is subject to the acquired business achieving certain performance targets. At the date of acquisition and at each subsequent reporting period, if required, the Company estimates the future performance of acquired businesses, which are subject to contingent consideration, in order to estimate the fair value of the acquired business will achieve its performance targets and thus earn its contingent consideration. Any changes in the fair value of the contingent consideration classified as a liability between reporting periods are included in the determination of net income/loss. Changes in fair value arise as a result of various factors, including the estimated probability of the acquired business achieving its earnings targets.

*Business combinations* – On the completion of business acquisitions, management's judgment is required to estimate the fair value of purchase consideration and to identify and estimate the fair values of tangible and intangible assets, liabilities and non-controlling interests. Depending on the intangible asset being valued, the fair values have been determined using the excess earnings method, relief from royalty method, replacement cost method and the With-or-Without Method. Critical estimates in valuing certain of the intangible assets and goodwill acquired include future expected cash flows from customer contracts, forecasted revenue, royalty rates, software development costs, obsolescence factor, customer attrition and discount rates. Unanticipated events and circumstances may occur that may affect the accuracy of such assumptions, estimates or actual results.

***Judgement***

*Consolidation of entities* – The Company considers that it controls Farvolden Psychology Professional Corporation ("ProfCo") acquired as part of the MindBeacon acquisition, in respect of all matters other than matters relating to the practice of psychology and psychotherapy, by virtue of a management services agreement, even though it does not own any of the voting rights or securities of ProfCo.

The Company evaluates all relevant facts and circumstances in assessing whether it has power over ProfCo, a key determinant of control, including assessing its rights, and the potential voting rights, contained in the management services agreement. In addition, the Company assesses its exposure, or rights, to variable returns and its ability to use its power over ProfCo to affect the amount of its returns. These evaluations are complex and involve judgment.

Judgment is required to determine whether the Company has the right to make decisions that control the relevant activities of ProfCo, and thus the ability to impact its economic returns. Management must assess which activities most significantly affect the economic performance of ProfCo and whether it has control over these activities. Judgment is also required to determine if the Company has power through potential voting rights. The Company makes an evaluation of whether its potential voting rights, through a call option to purchase all the outstanding shares of ProfCo for a nominal amount, are substantive. The Company evaluates whether the call option is in-the-money, whether it has the financial ability to exercise its option and whether the option is currently exercisable.

The Company has made the assessment that it has substantive rights, including the ability to control relevant activities, through the management services agreement. In addition, the Company has assessed that the management services agreement provides it with potential voting rights. The judgments made by management with respect to consolidation of entities can significantly impact the assets and liabilities, equity, income, expenses, and cash flows of the Company. Management performs ongoing reassessments of whether there are changes in the facts and circumstances that could impact the Company's ability to control, and therefore consolidate, ProfCo.

*Determination of cash generating unit ("CGUs*") – The determination of cash generating units for the purposes of impairment testing of non-financial assets requires the use of judgment. During the year ended December 31, 2022, due to the continued integration of services and offerings as one bundled offering under the Health and Wellness Solutions Group ("HWS") operating segment, the Company reassessed its cash generating units within this operating segment and determined that due to the bundling of services and offerings within this segment, the cash inflows generated in this operating segment are no longer independent. Due to these changes, the Company has identified the HWS operating segment as a single CGU.

## 4. BUSINESS COMBINATIONS

On January 14, 2022, the Company acquired all of the issued and outstanding Common Shares of MindBeacon Holdings Inc. ("MindBeacon"), one of North America's leading providers of digital mental health care. The acquisition received all required approvals and the transaction closed on that date. Under the terms of the agreement, shareholders of MindBeacon received 2.285 common shares of CloudMD for each common share of MindBeacon and $1.22 of cash per share. Total consideration paid was $29,271 in cash and $53,176 in common shares of CloudMD (54,820,958 common shares at fair value of $0.97 per share, which was the closing share price of CloudMD shares on January 14, 2022).

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

The purchase price for this acquisition is as follows:

| **Purchase price:** | **Final** |
|---|---|
| Fair value of common shares issued | $ 53,176 |
| Cash consideration | 29,271 |
| **Total consideration paid** | **$ 82,447** |
| **Allocated as follows:** | |
| Cash and cash equivalents | 41,434 |
| Trade and other receivables | 3,916 |
| Prepaid expenses, deposits and other | 2,010 |
| Property and equipment | 1,127 |
| Customer Relationship | 760 |
| Brand | 1,000 |
| Therapist Network | 950 |
| Software | 16,860 |
| Accounts payable, accrued liabilities and other | (6,051) |
| Deferred revenue | (677) |
| Deferred tax liability | (378) |
| Lease liabilities | (866) |
| Long-term debt | (1,379) |
| **Total net assets acquired** | **$ 58,706** |
| | |
| **Goodwill acquired** | **$ 23,741** |

In 2022, MindBeacon contributed $22,578 of revenue and $8,621 of net loss for the period. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been $115,630 and net loss from continuing operations for the Company would have been $151,105. The expenses in MindBeacon in the pre-acquisition and post acquisition period include certain acquisition and integration related costs and shared services costs in support of the broader CloudMD organization.

## 5. TRADE AND OTHER RECEIVABLES

The following table shows the details of the Company's trade and other receivables:

| As at | **December 31, 2023** | **December 31, 2022** |
|---|---|---|
| Trade receivables | **$ 14,203** | $ 15,884 |
| Other receivables | **3,393** | 4,760 |
| Allowance for expected credit losses | **(1,944)** | (1,864) |
| **Total** | **$ 15,652** | $ 18,780 |

The Company evaluates credit losses on a regular basis based on the aging and future collectability of its receivables. As at December 31, 2023, the Company recognized expected credit losses of $1,944 (2022 - $1,864), which has been netted against trade and other receivables. The expected lifetime credit loss provision for our trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information as required.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 6. EXPENSES BY NATURE FOR CONTINUING OPERATIONS

| As at the year ended: | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Cost of sales | **$ 55,782** | $ 64,683 |
| Marketing and advertising | **1,658** | 3,155 |
| Office and administration | **8,663** | 8,663 |
| Professional fees | **8,347** | 14,438 |
| Rent on short-term leases | **1,102** | 1,429 |
| Transfer agent and regulatory fees | **27** | 97 |
| Wages and employee benefits | **22,792** | 29,419 |
| Amortization of intangible assets | **11,555** | 10,649 |
| Depreciation of property and equipment | **2,434** | 2,810 |
| Impairment | **59,888** | 81,275 |
| Share-based compensation | **867** | 1,273 |
| **Total** | **$ 173,115** | $217,891 |

## 7. PROPERTY AND EQUIPMENT

| | Equipment and other | Computers | Leasehold improvements | Right-of-use assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, January 1, 2022 | $ 1,659 | $ 771 | $ 1,162 | $ 11,380 | $ 14,972 |
| Acquisitions | 67 | 207 | 44 | 808 | 1,126 |
| Additions | 134 | 122 | 74 | 3,762 | 4,092 |
| Impairment | (117) | (10) | - | (15) | (142) |
| Disposals | (240) | (76) | (223) | (6,653) | (7,192) |
| Transfer to held for sale | (127) | (22) | (32) | (128) | (309) |
| Foreign exchange differences | 50 | 43 | 135 | 45 | 273 |
| Balance, December 31, 2022 | $ 1,426 | $ 1,035 | $ 1,160 | $ 9,199 | $ 12,820 |
| Additions | 22 | 38 | 57 | 917 | 1,034 |
| Foreign exchange differences | 1 | - | - | 27 | 28 |
| Transfer to held for sale | (647) | (49) | (218) | (971) | (1,885) |
| **Balance, December 31, 2023** | **$ 802** | **$ 1,024** | **$ 999** | **$ 9,172** | **$ 11,997** |
| | | | | | |
| **Accumulated Depreciation** | | | | | |
| Balance, January 1, 2022 | $ 277 | $ 254 | $ 298 | $ 2,824 | $ 3,653 |
| Amortization | 431 | 511 | 324 | 2,852 | 4,118 |
| Disposals | (117) | (53) | (120) | (2,263) | (2,553) |
| Transfer to held for sale | (128) | (22) | (7) | (215) | (372) |
| Foreign exchange differences | 45 | 40 | 137 | 1 | 223 |
| Balance, December 31, 2022 | 508 | 730 | 632 | 3,199 | 5,069 |
| Amortization | 143 | 169 | 157 | 1,965 | 2,434 |
| Transfer to held for sale | (92) | (10) | (44) | (151) | (297) |
| **Balance, December 31, 2023** | **$ 559** | **$ 889** | **$ 745** | **$ 5,013** | **$ 7,206** |
| | | | | | |
| **Net Book Value** | | | | | |
| At December 31, 2022 | $ 918 | $ 305 | $ 528 | $ 6,000 | $ 7,751 |
| **At December 31, 2023** | **$ 243** | **$ 135** | **$ 254** | **$ 4,159** | **$ 4,791** |

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 8. GOODWILL AND INTANGIBLE ASSETS

| | Customer relationships | Content Licenses | Brands | Network | Non - Compete agreement | Technology platforms | Assets under development | Total intangible assets | Goodwill |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance, January 1, 2022 | $52,905 | $90 | $22,907 | $- | $368 | $13,680 | $547 | $90,497 | $139,367 |
| Acquisition | 760 | - | 1,000 | 950 | - | 16,860 | - | 19,570 | 23,741 |
| Foreign exchange | 91 | - | 74 | - | - | 242 | - | 407 | - |
| Additions | - | - | - | - | - | 2,075 | 1,195 | 3,270 | - |
| Impairment | (3,154) | - | (7,214) | - | - | (414) | - | (10,782) | (116,569) |
| Transfer to Held for sale | (484) | - | - | - | - | (179) | - | (663) | - |
| Disposals | (1,406) | - | (230) | - | - | (1,091) | - | (2,727) | (4,755) |
| **Balance, December 31, 2022** | **$48,712** | **$90** | **$16,537** | **$950** | **$368** | **$31,173** | **$1,742** | **$99,572** | **$ 41,784** |
| Transfer to held for sale and disposals | (249) | - | (5,264) | - | - | (1,135) | - | (6,648) | (4,048) |
| Additions | - | - | - | - | - | 1,534 | 413 | 1,947 | - |
| Impairment | (11,370) | (1) | (2,875) | (6) | (2) | (7,677) | (419) | (22,350) | (37,538) |
| Foreign exchange | (14) | - | (1) | - | - | 93 | - | 78 | (198) |
| **Balance, December 31, 2023** | **$37,079** | **$89** | **$8,397** | **$944** | **$366** | **$23,988** | **$1,736** | **$72,599** | **$ -** |
| **Accumulated Amortization** | | | | | | | | | |
| Balance, January 1, 2022 | $3,677 | $ - | $ - | $ - | $115 | $1,328 | $ - | $5,120 | - |
| Amortization | 5,168 | - | - | 455 | 122 | 5,581 | - | 11,326 | - |
| Foreign exchange | 13 | - | - | - | - | 31 | - | 44 | - |
| Transfer to held for sale | (484) | - | - | - | - | (85) | - | (569) | - |
| Disposals | (484) | - | - | - | - | (423) | - | (907) | - |
| **Balance, December 31, 2022** | **$7,890** | **$ -** | **$ -** | **$455** | **$237** | **$6,432** | **$ -** | **$15,014** | **$ -** |
| Disposals | (61) | - | - | - | - | (313) | - | (374) | - |
| Amortization | 4,875 | - | - | 475 | 122 | 6,083 | - | 11,555 | - |
| Foreign exchange | 11 | - | - | - | - | 61 | - | 72 | - |
| **Balance, December 31, 2023** | **$12,715** | **$ -** | **$ -** | **$930** | **$359** | **$12,263** | **$ -** | **$26,267** | **$ -** |
| **Net Book Value** | | | | | | | | | |
| At December 31, 2022 | $40,822 | $90 | $16,537 | $495 | $131 | $24,741 | $1,742 | $84,558 | $41,784 |
| **At December 31, 2023** | $24,364 | $89 | $8,397 | $14 | $7 | $11,725 | $1,736 | $46,332 | $ - |

For the year ended December 31, 2023, the Company recognized impairment charge of $37,538 (2022 - $116,569) to its goodwill balance, of which $37,538 (2022 - $112,967) was recognized in continuing operations and nil (2022 – $3,602) was recognized in discontinued operations.

For the year ended December 31, 2023, the Company recognized an impairment charge of $26,386 (2022 - $10,782) to its intangible assets balance, of which $22,350 (2022 – $7,214) was recognized in continuing operations and $4,036 (2022 - $3,568) was recognized in discontinued operations.

As at December 31, 2023, the carrying amount of goodwill and intangible assets is allocated to following CGUs:

- Health and Wellness Services (“HWS”) CGU – Recoverable amount of this CGU was calculated as $35,726 based on a value in use calculation using a cash flow projection covering a five-year period, $54,222 of impairment was recorded as a result of the annual impairment test.
- IDYA4 CGU – Recoverable amount of this CGU was calculated as nil based on a value in use calculation using a cash flow projection covering a five-year period, $3,225 impairment was recorded as a result of the annual impairment test.
- IMD CGU – Recoverable amount of this CGU was calculated as $2,924 based on a value in use calculation using a cash flow projection covering a five-year period, $2,441 impairment was recorded as a result of the annual impairment test.

The Company performed its annual impairment test on December 31, 2023. The recoverable amount of the CGUs was based on its value in use covering a five-year cash flow projection based on management’s estimate of future operating results. Value in use was determined by discounting the future cash flows to be generated from the continuing use of the CGU. The following significant assumptions were used:

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

- Discount rate: The discount rate used in our testing was 14.5% (2022 – 13.5% to 14.5%). The discount rate reflected appropriate adjustments relating to market risk and specific risk factors for the specific CGU. A 0.5% increase in the discount rate would result in a decrease in total enterprise value calculated by $1,678.
- Cash flows: Estimated cash flows were projected based on actual operating results from internal sources as well as management's expectations of market development. Estimated cash flows are primarily driven by revenue growth rates and forecasted EBITDA. The average revenue growth rates assumed in the model range from 2% to 6.1% (2022 – 7.1% to 15%). A 1% decrease in the average revenue growth rate will decrease total enterprise value calculated by $2,217. The average EBITDA percentages assumed in the model range from 6.8% to 25.7% (2022 – 7.3% to 19.4%). A 1% decrease in margin will result in an enterprise value decrease by $4,552.
- Terminal value growth rate: The terminal growth rate was based on historical and projected consumer price inflation and projected industry growth. For the annual impairment testing, cash flows have been extrapolated beyond five years using a 2.0% (2022 – 3.5%) growth rate. A 0.5% decrease in terminal value growth rate will decrease the total enterprise value calculated by $1,177.

*Classification to held for sale*

As at June 30, 2023, due to the planned sale of Vision Pro (see note 16), the Company valued the Vision Pro at fair value lest cost to sell.

As at December 31, 2023, the Company recorded an impairment loss $4,036 (2022- $409) related to the Vision Pro assets held for sale.

## 9. LONG TERM DEBT

| | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Bank loans: | | |
| Variable interest rate | **$ 16,167** | $ 17,584 |
| Variable interest rate | **-** | 25 |
| Fixed interest rate loan | **-** | 102 |
| Interest free loans: | | |
| Federal Economic Development Agency Loan | **2,836** | 1,952 |
| CEBA Loan[(1)] | **60** | 60 |
| **Balance** | **$ 19,063** | $ 19,723 |
| Current portion | **16,474** | 19,617 |
| **Long-term portion** | **$ 2,589** | $ 106 |

[(1)] Loan matured on December 31, 2023 and was settled subsequent to year end.

Bank Loans

The Company, through its subsidiary Oncidium, has credit facilities of up to $28,750 (the "Facilities"). On March 28, 2023, the Company amended the credit agreement governing the Facilities. Under the terms of the amended agreement, the credit parties have been expanded to include CloudMD Holdings Inc., Humanacare Organizational Resources Inc., Medical Confidence Inc., and Re: Function Health Group Inc. In addition, the Company can net up to $2.5 million of cash or cash equivalents that are deposited in a restricted cash account with the lender against the outstanding debt amount for purposes of calculating the financial covenants.

As at December 31, 2023, the cash held with the lender of $2,500 is classified as restricted cash as it is not available to be used for the Company's short-term commitments.

The Company’s Facilities are comprised of the following:

(1) Revolver Facility of $3,000;
(2) Term Facility of $15,750, subject to certain restrictions for use beyond the balance already drawn; and,
(3) Additional term facility of $10,000 subject to lender approval.

As stated in Note 2, the Company was not in compliance with certain financial covenants under the Facilities as of December 31, 2022. Additionally, the Facilities mature on June 25, 2024. As a result, $16,167 was included in the current liabilities in the Consolidated Statement of Financial Position as of December 31, 2023 (December 31, 2022 - $17,584). However, as of the date that these consolidated financial statements were approved and authorized for issuance, the Company’s projected cash flows are not sufficient to repay the full amount of the Facilities on the maturity date of June 25, 2024 and fund operations.

Interest accrues daily on advances at the applicable Canadian Dealer Offered Rate (“CDOR”) plus a margin of between 2.0% and 3.5% dependent upon certain financial ratios. The fair value of the long-term debt approximates its carrying value. The interest rate on the loans as at December 31, 2023 was 7.7%.

As at December 31, 2023, the Company was in compliance with all amended financial covenants. The debt is secured by a first-ranking security interest on all present and after-acquired assets of the Company’s above listed entities.

Interest free loans

MindBeacon entered into a contribution agreement with the Federal Economic Development Agency for Southern Ontario for up to $4,000 in interest free loans to support its transition into a digital mental health platform provider, with the objective of growing recurring revenue by offering its platform as a service to customers in global markets. The loan is repayable over a period of five years, beginning January 2024. The government grant was calculated using a discount rate of 11.9%,which is the expected interest rate on a similar type of loan. During the year ended December 31, 2023, the Company received $1,091 (2022 - $467) of additional loans.

## 10. LEASES

The Company leases various office, clinic, and pharmacy spaces for its operations. The Company also subleases certain excess space to a third party.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

The following is a continuity schedule of the Company's lease liabilities:

| | |
|---|---|
| **Balance, December 31, 2022** | **$ 6,305** |
| Additions | 910 |
| Interest expense on lease liabilities | 192 |
| Foreign exchange | (16) |
| Disposals (note 16) | (731) |
| Transferred to liabilities held for sale (note 16) | (259) |
| Lease payments | (2,129) |
| **Balance, December 31, 2023** | **$ 4,272** |
| Current portion | 1,706 |
| **Long-term portion** | **$ 2,566** |

The following is a breakdown of contractual undiscounted cash flows for lease liabilities by maturities as at December 31, 2023:

| | **December 31, 2023** |
|---|---|
| Less than one year | $ 2,270 |
| One to five years | 3,725 |
| More than five years | - |
| **Total** | **$ 5,995** |

## 11. RELATED PARTY TRANSACTIONS

Key management personnel include the Company's Board of Directors, members of the senior executive team, close family members, and enterprises which are under common control or controlled by these individuals. The below transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The following is a summary of remuneration of key management and Board of Directors:

| | **Year ended** | |
|---|---|---|
| | **December 31, 2023** | **December 31, 2022** |
| Cash-based compensation | **$ 2,153** | $ 3,038 |
| Stock-based compensation | **837** | 853 |
| **Total** | **$ 2,990** | $ 3,891 |

## 12. SHARE CAPITAL

### (a) Authorized

Unlimited common shares without par value.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

**(b) Issued and outstanding**

The following is a summary of share capital activities:

| | Number of common shares | Share capital |
|---|---|---|
| **Balance, December 31, 2021** | **226,704,789** | **117,418** |
| Shares issued for business combinations | 54,820,961 | 53,176 |
| Shares returned on sale of investment accounted under equity method | (44,444) | (86) |
| Contingent shares issued | 3,490,761 | 3,333 |
| Contingent consideration settled in shares | 8,529,280 | 6,616 |
| Exercise of stock options | 100,000 | 87 |
| Exercise of warrants | 354,289 | 281 |
| Shares issued for services | 92,467 | 15 |
| **Balance, December 31, 2022** | **294,048,103** | **$ 304,817** |
| Contingent shares issued | 4,729,606 | 2,706 |
| Contingent consideration settled in shares | 5,652,174 | 765 |
| Exercise of restricted stock units | 250,000 | 34 |
| **Balance, December 31, 2023** | **304,679,883** | **$ 308,322** |

**(c) Shares under trading restrictions**

As at December 31, 2023, the Company has issued 39,676 common shares that were subject to trading restrictions (December 31, 2022 – 10,113,851).

**(d) Escrow Shares**

As at December 31, 2023, the Company has 39,676 common shares held in escrow (December 31, 2022 – 10,113,851).

Escrow shares will be released as follows:

- 39,668 shares on January 31, 2023, and the same amount released every six months thereafter until the last 39,676 shares are released on January 31, 2024.

**(e) Stock Options**

The Company has adopted an incentive stock option plan (the "Option Plan"), which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the applicable stock exchange's requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares. Pursuant to the Option Plan, at any point in time is 10% of the outstanding shares at the time shares are reserved for issuance as a result of the grant of an option, less any common shares reserved for issuance under share compensation arrangements other than the Company's restricted share unit plan. Stock options granted under the Option Plan can have a maximum exercise term of 10 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

The following is a summary of activities in the Company's incentive stock option plan:

| | Number of Stock Options | Weighted Average Exercise Price |
|---|---|---|
| **Balance outstanding, December 31, 2021** | **10,161,750** | **1.33** |
| Granted | 761,667 | 0.47 |
| Exercised | (100,000) | 0.50 |
| Cancelled/Forfeited | (1,169,250) | 1.57 |
| Expired | (636,250) | 1.07 |
| **Balance outstanding, December 31, 2022** | **9,017,917** | **1.26** |
| Granted | 1,050,000 | 0.17 |
| Cancelled/Forfeited | (427,500) | 0.14 |
| Expired | (4,618,750) | 1.07 |
| **Balance outstanding, December 31, 2023** | **5,021,667** | **1.23** |

As at December 31, 2023, the Company had the following stock options outstanding and exercisable:

| | | | | Options outstanding | | | Options exercisable | | |
|---|---|---|---|---|---|---|---|---|---|
| Range of exercise prices | | | Number of options outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price | | Number of options exercisable | Weighted average exercise price | |
| $0.0 | to | $0.50 | 1,706,667 | 1.49 | $ | 0.11 | 1,042,084 | $ | 0.49 |
| $0.51 | to | $1.00 | 975,000 | 0.11 | | 0.15 | 975,000 | | 0.15 |
| $1.01 | to | $1.50 | 400,000 | 0.13 | | 0.11 | 400,000 | | 0.11 |
| $1.51 | to | $2.00 | 640,000 | 0.31 | | 0.23 | 640,000 | | 0.23 |
| $2.01 | to | $2.50 | 1,225,000 | 0.45 | | 0.59 | 1,225,000 | | 0.59 |
| $2.51 | to | $3.00 | 75,000 | 0.03 | | 0.04 | 75,000 | | 0.04 |
| | | | **5,021,667** | **2.52** | **$** | **1.23** | **4,357,084** | **$** | **1.27** |

The following weighted average assumptions were used in calculating the fair value of stock options granted during the period using the Black-Scholes model:

| For the period ended: | 2023 | 2022 |
|---|---|---|
| Expected option life | **5 years** | 5 years |
| Risk-free interest rate | **3.7%** | 0.43%-1.09% |
| Dividend yield | **0%** | 0% |
| Volatility rate | **69%** | 59-60% |
| Forfeiture rate | **0%** | 0% |

**(f) Restricted Share Units ("RSU")**

The Company has adopted a restricted share unit ("RSU") plan (the "RSU Plan"), which provides that the Board of Directors of the Company may, from time to time, award RSUs in its discretion to directors, employees, and consultants to the Company. The aggregate number of Common Shares reserved for issuance under the RSU Plan, together with any other security-based compensation arrangements, at any point in time may not exceed 10% of the issued and outstanding Common Shares within a 12-month period. RSUs awarded under the RSU Plan can have a maximum term of 10 years from the award date. Vesting terms will be determined at the time of the award by the Board of Directors.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

The following is a summary of activity in the Company’s RSU plan:

| | **Number of Restricted Share Units** |
|---|---|
| **Balance outstanding, December 31, 2021** | **581,250** |
| Granted | 908,250 |
| Expired | (243,750) |
| **Balance outstanding, December 31, 2022** | **1,245,750** |
| Granted | 8,293,042 |
| Exercised | (210,000) |
| Expired | (250,000) |
| **Balance outstanding, December 31, 2023** | **9,078,792** |

**(g) Deferred Share Units (“DSU”)**

Effective May 1, 2022, the Company adopted a cash-settled DSU plan for its independent directors (the “DSU Plan”), which provides that the Board of Directors may, from time to time, award DSUs in its discretion to the independent directors. All DSUs granted vest immediately and are credited to each independent directors’ account and are recorded under accounts payable, accrued liabilities and other.

The following is a summary of activity in the Company’s DSU plan:

| | **Number of Deferred Share Units** |
|---|---|
| **Balance outstanding, December 31, 2021** | **140,000** |
| Granted | 40,000 |
| **Balance outstanding, December 31, 2022** | **180,000** |
| Redeemed | (140,000) |
| Granted | 2,782,527 |
| **Balance outstanding, December 31, 2023** | **2,822,527** |

Share-based compensation

| For the period ended: | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Stock options | **$ 30** | $ 649 |
| RSUs | **470** | 604 |
| DSUs | **367** | 20 |
| **Total share-based compensation expense** | **$ 867** | $ 1,273 |

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

**(a) Cash, cash equivalents and restricted cash**

| As at: | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Cash | **$ 6,959** | $ 15,868 |
| Cash equivalents | **1,971** | 8,190 |
| Restricted cash | **2,500** | - |
| **Total** | **$ 11,430** | $ 24,058 |

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

**(b) Other cash flow information**

| For the period ended: | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| **Change in non-cash working capital** | | |
| Trade and other receivables | **$ 4,663** | $ 3,530 |
| Inventory | **493** | 1,300 |
| Prepaid expenses, deposits and other | **838** | (394) |
| Accounts payable, accrued liabilities and other | **(9,084)** | (8,783) |
| Deferred revenue | **634** | 268 |
| | **$ (2,456)** | $ (4,079) |
| **Non-cash investing activities** | | |
| Contingent consideration settled in shares | **$765** | - |
| Shares issued for acquisition of MindBeacon | **-** | $ 53,176 |
| Shares issued for services | **-** | 15 |

## 14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximize shareholder value. The Company's capital is comprised of equity and long-term debt, net of cash and cash equivalents. The Company manages the capital structure and adjusts in response to changes in economic conditions and the risk characteristics of the underlying assets.

There were no changes to the Company's approach in its management of capital during the period.

The Company is subject to certain financial covenants in its debt obligations. The Company's strategy is to ensure it remains in compliance with all of its covenants under the Facilities and pursue refinancing of the Facilities prior to their maturity so as to ensure the Company can continue as a going concern. Management reviews results and forecasts to monitor the Company's compliance for both the near-term and the upcoming four quarters.

## 15. FINANCIAL INSTRUMENTS

The Company's principal financial assets include cash and cash equivalents, and trade and other receivables. The Company's principal financial liabilities comprise of accounts payable and accrued liabilities, contingent consideration, contingent liability, long-term debt, and liability to noncontrolling interest. The main purpose of these financial liabilities is to finance the Company's operations.

The carrying values of cash and cash equivalents, trade and other receivables, and accounts payable, accrued liabilities and other approximate their fair values due to the immediate or short-term nature of these instruments. The carrying value of long-term debt is initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. There were no transfers between levels of the fair value hierarchy.

The Company is exposed to credit risk, liquidity risk and market risk. The Company's senior management oversees the management of these risks.

**Credit risk**

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Credit risk arises from cash and cash equivalents, and trade and other receivables. To manage credit risk, cash and cash equivalents are segment held only with reputable and regulated financial institutions.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

The Company provides credit to its customers in the normal course of operations. The Company minimizes its credit risk associated with its trade and other receivables by performing credit evaluations on customers, maintaining regular and ongoing contact with customers, routinely reviewing the status of individual trade and other receivables balances, and following up on overdue amounts. Further, trade receivables are monitored on a periodic basis for assessing any significant risk of non-recoverability of dues and provisions are created accordingly.

The Company's exposure to credit risk is considered to be low, given the size and nature of the various counterparties involved and their history of collections.

As at December 31, 2023, the Company had $15,652 (December 31, 2022 – $18,780) of trade and other receivables, net of an allowance for expected credit losses of $1,944 (December 31, 2022 - $1,864). As at December 31, 2023, the Company had no customers with individual balances more than 10% of accounts receivable net of allowance for credit losses (2022: nil).

**Liquidity risk**

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they become due. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they become due, as well as ensuring adequate funds exist to support business strategies and operational growth. The current assets reflected on the statement of financial position are highly liquid. The maturity profile of the Company's financial liabilities, based on contractual undiscounted payment at each reporting date is:

| As at December 31, 2023 | Less than one year | One to five years | More than five years | Total |
|---|---|---|---|---|
| Accounts payable, accrued liabilities and other | $ 17,901 | $ - | $ - | $ 17,901 |
| Lease liabilities | 2,270 | 3,725 | - | 5,995 |
| Long-term debt | 17,494 | 3,580 | - | 21,074 |
| | **$ 37,665** | **$ 7,305** | **$ -** | **$ 44,970** |

| As at December 31, 2022 | Less than one year | One to five years | More than five years | Total |
|---|---|---|---|---|
| Accounts payable, accrued liabilities and other | $ 20,911 | $ - | $ - | $ 20,911 |
| Contingent consideration | 2,177 | 241 | - | 2,418 |
| Lease liabilities | 2,340 | 4,869 | - | 7,209 |
| Long-term debt | 18,364 | 2,393 | 577 | 21,334 |
| | **$ 43,792** | **$ 7,503** | **$ 577** | **$ 51,872** |

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Company is exposed to interest rate risk and foreign currency risk.

**a) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

At December 31, 2023, the Company had variable rate borrowing rate loans amounting to $16,167 (December 31, 2022 – $17,609). With all other variables held constant, a 1% increase in the interest rate would have increased net loss by approximately $162 for the year ended December 31, 2023. There would be an equal and opposite impact on net loss with a 1% decrease in the interest rate (December 31, 2022 – $176).

**b) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency) and the Company's net investments in foreign subsidiaries. The Company's US operations functional currency is USD, and therefore any fluctuation in USD relative to CAD will result in a change in other comprehensive income for the period.

The Company's exposure to foreign currency risk to profit before tax is based on changes in the fair value of unhedged foreign currency monetary assets and liabilities and as at the balance sheet date is immaterial.

The Company's exposure to foreign currency risk at the end of reporting period is as follows:

| **(Denominated in USD)** | **December 31, 2023** | **December 31, 2022** |
|---|---|---|
| **Financial assets** | | |
| Cash | $ 895 | $ 2,045 |
| Trade and other receivables | 1,414 | 2,115 |
| **Financial liabilities** | | |
| Accounts payable and accrued liabilities | 2,382 | 2,622 |
| **Net exposure to foreign currency risk** | **$ (73)** | **$ 1,538** |

## 16. DISCONTINUED OPERATIONS AND ASSETS HELD-FOR-SALE

Benchmark System Inc

On June 29, 2023, the Company sold its assets and liabilities associated with Benchmark System Inc.'s business for a consideration of $8,341 (USD $6,300), subject to adjustment related to final working capital. The sale price comprised of upfront cash payment of $7,340 (USD $5,544) and a holdback amount of $1,001 (USD $756) payable on the first anniversary of the closing date of the transaction.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

The effect of the disposals on the financial position of the Company is as follows:

| | December 31, 2023 |
|---|---|
| Accounts receivable | $ (591) |
| Prepaid expenses | (31) |
| Inventory | (30) |
| Property and equipment | (786) |
| Goodwill and intangible assets | (6,858) |
| Accounts payable and accrued liabilities | 166 |
| Deferred revenue | 443 |
| Lease liabilities | 731 |
| **Net assets and liabilities** | **$ (6,956)** |
| Total consideration | 8,341 |
| Less: Holdback | (1,001) |
| Less: Transaction costs | (1,195) |
| **Net cash inflows** | **$ 6,145** |

VisionPros

During the second quarter of 2023, management commenced a sale process to dispose its Vision Pros e-commerce business. As a result, the assets and liabilities of VisionPros have been classified as held-for-sale. As of the date of these consolidated financial statements, the Company has not reached a definitive arrangement to sell this business. As of December 31, 2023, VisionPros had current assets of $747 property and equipment of $373, right of use assets of $196, and current liabilities of $2,360.

Clinic Services & Pharmacies segment

In September 2022, management committed to a plan to sell the following legal entities:

- South Surrey Medical Clinic (within the Clinic Services & Pharmacies segment)
- Healthvue Ventures Limited (within the Clinic Services & Pharmacies segment)
- Cloverdale Pharmacy Ltd. (within the Clinic Services & Pharmacies segment)
- Steveston Health Centre Ltd. (within the Clinic Services & Pharmacies segment)
- RX Infinity Inc., RXI Pharmacy Inc. & RXI Health Solutions (collectively "RXI" and within the Clinic Services & Pharmacies segment)
- Cloud Practice Inc. (within the Digital Health Solutions segment)

The above entities also represent the entirety of the Clinic Services & Pharmacies segment. The Company sold 100% of its shares in South Surrey Medical Clinic, Healthvue and Cloud Practice Inc. on November 1, 2022. The Company sold 100% of its shares in Steveston and Cloverdale Pharmacies on December 19, 2022. During the year ended December 31, 2023, the Company sold substantially all of the assets in RXI and is in the process of being wound down at December 31, 2023.

During the year ended December 31, 2023, the Company received $1,261 for the settlement of working capital and certain customary holdbacks as part of the sale agreements.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

The results of the entities held-for-sale and other discontinued operations for the periods are presented below:

| | **Year ended December 31** | |
|---|---|---|
| | **2023** | **2022** |
| Revenue | **$10,875** | $54,992 |
| Expenses | **13,930** | 59,311 |
| Impairment | **4,036** | 46,626 |
| Operating loss | **$ (7,091)** | $ (50,945) |
| Finance costs | **(84)** | (228) |
| Other income | **349** | 334 |
| **Loss before tax from discontinuing operations** | **$ (6,826)** | $ (50,839) |
| Tax benefit | **209** | 3,737 |
| Gain on sale of subsidiary | **340** | 1,113 |
| **Loss after tax for the period from discontinuing operations** | **$ (6,277)** | $ (45,989) |
| Loss per share from discontinuing operations | **$ (0.02)** | $ (0.16) |

As at December 31, 2023, RXI and VisionPros have assets of $1,810 less liabilities of $715, detailed as below:

| | **As at December 31, 2023** |
|---|---|
| Accounts receivable | $302 |
| Prepaid expenses | 57 |
| Inventory | 539 |
| Property and equipment | 912 |
| Goodwill and intangible assets | - |
| Accounts payable and accrued liabilities | (202) |
| Lease liabilities | (513) |
| Total | **$1,095** |

The net cash flows incurred by the disposal groups are, as follows:

| For the period ended: | **December 31, 2023** | **December 31, 2022** |
|---|---|---|
| Operating | 327 | (2,465) |
| Financing | (546) | (1,303) |
| Investing | 219 | 75 |
| **Net cash outflow** | $- | $(3,693) |

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 17. SEGMENTED INFORMATION

The Company has two operating segments and the Company's chief operating decision-maker is the Chief Executive Officer.

**Health and Productivity Solutions ("HPS")**

Health and Productivity Solutions (formerly Digital Health Solutions) are offered on a subscription or license to use basis. The solutions are sold to companies, insurers, clinics and pharmacies (including those owned by the Company) who use our technology to create connectivity, and improve the healthcare practitioner, client and user experience while creating efficiencies in administration. In addition, in our IDYA4 business, revenues tend to be higher in the fourth quarter of the year in-line with U.S. government budget spend.

**Health and Wellness Services ("HWS")**

Health and Wellness Services (formerly Enterprise Health Solutions) provides organizations with physical and mental health navigation and treatment through employee support services. Revenues within this division is earned through two pricing models:

- Subscription-based pricing model using a price per member per month with an average contractual term of 3 years; and,
- Per-case billing model at an agreed upon rate for services that are used in disability management, occupational health, and other employer services.

The demand for certain services within the HWS division that employ a per-case billing model is subject to seasonal fluctuations. This is attributable to lower patient and consumer visits and engagement in the summer months and around the holiday season at the end of the year.

A breakdown of revenue for each operating segment for the year ended December 31, 2023 and 2022 is as follows:

| **Revenue** | **Year ended December 31,** | |
|---|---|---|
| | **2023** | **2022** |
| Health and Wellness Services | **$ 85,373** | $ 92,768 |
| Health and Productivity Solutions | **5,532** | 6,686 |
| **Total revenue** | **$ 90,905** | $ 99,454 |

A geographic breakdown of revenue for each operating segment for the year ended December 31, 2023 and 2022 is as follows:

| **Revenue** | **Year ended December 31,** | |
|---|---|---|
| | **2023** | **2022** |
| Canada | **$ 78,066** | $ 86,420 |
| United States | **12,839** | 13,034 |
| **Total revenue** | **$ 90,905** | $ 99,454 |

Total assets and total liabilities for each segment and geographic region is not information that is provided to and reviewed by the CODM.

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 18. INCOME TAX

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| For the year ended: | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Net loss before taxes for the year | **$ (81,883)** | $ (153,670) |
| Statutory rate | **27%** | 27% |
| | | |
| Expected income tax recovery | **(22,109)** | (41,455) |
| Change in tax rates | **780** | 491 |
| Permanent differences | **10,086** | 27,875 |
| Adjustment in respect of current tax in previous years | **(3,456)** | (1,846) |
| Change in unrecognized deferred tax assets | **9,138** | 10,838 |
| Other | **235** | (682) |
| | **$ (5,326)** | $ (4,779) |

Significant components of income tax expense (recovery) comprise the following:

| For the year ended: | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Current income tax expense (recovery) | **$ (7)** | $ 699 |
| Adjustments in respect of current income tax of previous years | **(830)** | (1,064) |
| Adjustments in respect of deferred income tax of previous years | **(2,626)** | (902) |
| Deferred tax recovery | **(1,863)** | (3,512) |
| **Total income tax recovery** | **$ (5,326)** | $ (4,779) |

The significant components of the Company's deferred income tax assets and liabilities, which have not been recognized are as follows:

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Intangible assets | **$ (10,058)** | $ (18,745) |
| Right of use assets | **(975)** | (1,371) |
| Property and equipment | **(81)** | (119) |
| Lease liability | **1,039** | 1,433 |
| Non-capital losses carried forward | **3,987** | 7,191 |
| Share issuance costs | **-** | 1 |
| Other | **-** | 1 |
| | **$ (6,088)** | $ (11,609) |

| Reconciliation of deferred tax liabilities, net | December 31, 2023 | December 31, 2022 |
|---|---|---|
| At the beginning of the year | **$ (11,609)** | $ (15,614) |
| Recognized in profit or loss | **4,489** | 4,414 |
| Deferred tax acquired in business combinations | **1,032** | (377) |
| Other | **-** | (32) |
| | **$ (6,088)** | $ (11,609) |

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

| Tax attributes not recognized | December 31, 2023 | December 31, 2022 |
| --- | --- | --- |
| Property and equipment | **$ 448** | $ 343 |
| Intangible assets | **12,424** | 7,661 |
| Other | **1,193** | - |
| Lease liability | **11** | 8 |
| Share issuance costs | **4,840** | 6,457 |
| Contingent liabilities | **1,346** | 1,200 |
| Allowance for expected credit losses | **1,576** | 261 |
| Non-capital loss carryforward | **113,933** | 96,986 |
| Capital loss carryforward | **7,80** | 2,086 |
| | **$ 143,578** | $ 115,002 |

As at December 31, 2023, the company had approximately $124,245 in non-capital losses in Canada which expire between 2029 and 2043. As at December 31, 2023, the Company had approximately $5,229 in non-capital losses in United States which can be carried forward indefinitely.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

## 19. LITIGATION AND OTHER CONTINGENCIES

In 2020, Gravitas Securities Inc. commenced an arbitration alleging breach of the terms of a right of first refusal in connection with an offering which was in the form of a bought deal equity financing underwritten by a syndicate of other investment banks in May 2020. In the second quarter of 2023, a decision of the arbitrator was reached resulting in a settlement amount owing of $440. The Company had previously provisioned $1,200 for the contingent liability and consequently reversed $760 during the year.

The Company is subject to litigation and similar claims in the ordinary course of our business, including claims related to employment, human resources, and commercial disputes. The Company has received notice of, or are aware of, certain possible claims against us where the magnitude of such claims is negligible, or it is not currently possible for us to predict the outcome of such claims, possible claims or lawsuits due to various factors including: the preliminary nature of some claims; and the unpredictable nature of opposing parties and their demands. Management is of the opinion, based upon legal assessments and information presently available, that it is unlikely that any of these claims would result in liability to the Company, to the extent not provided for through insurance or otherwise, would have a material effect on the consolidated financial statements.

## 20. SUBSEQUENT EVENTS

On May 15, 2024, the Company entered into and announced a definitive agreement (the "**Arrangement Agreement**") with an affiliate of CPS Capital (the "**Purchaser**"), a private equity investment firm, pursuant to which the Purchaser will acquire all of the issued and outstanding common shares of the Company for cash consideration of $0.04 per share (the "**Transaction**"). The Transaction will be implemented by way of a plan of arrangement under the Business Corporations Act (British Columbia) and is subject to approval by the Company's securityholders, the TSX Venture Exchange and the Supreme Court of British Columbia. The expected gross proceeds based the estimated $0.04 per share reflects a $12 million equity value before considering transactions costs, compared to the $0.085 per share at December 31, 2023. The additional impairment of the Company's value subsequent to December 31, 2023 reflects an increase in the risk premium of the Company due to the inability to generate sufficient cash flow from operations to support the business while making scheduled debt payments, limited refinancing opportunities at commercially reasonable rates without onerous covenants further restricting business operations, and the impact from ongoing costs related to past acquisitions and earn out agreements paid over the year.

In connection with the Transaction, a forbearance agreement was entered into with the Company's lender under the Facilities to provide financial and operational support over the Transaction period. The forbearance agreement provides the Company with a $2 million non-revolving term facility should the Company require capital to support business operations prior to the close of the transaction, permission to withdraw up to $2.5 million from the Restricted Cash balance notwithstanding the exiting defaults, deferral of the scheduled principal repayments owing to the lender over the transaction period and requires bi-weekly updates to cash flows where all deposits and disbursements of the Company are monitored by an independent Financial Advisor. The Company also entered into an agreement with the Purchaser pursuant to which the Purchaser agreed to provide a $1.0 million bridge loan to the Company to support its liquidity needs during the interim period until closing of the Transaction.

Subject to the satisfaction (or waiver, as permitted) of the closing conditions in accordance with the Arrangement Agreement, the Transaction is expected to be completed in July 2024.