

HEALTHSPACE DATA SYSTEMS LTD.

Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016
(Unaudited - Expressed in US dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed combined interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

HEALTHSPACE DATA SYSTEMS LTD.**Condensed Consolidated Interim Statements of Financial Position**

As at October 31, 2017

Unaudited (Expressed in US dollars)

| | October 31, 2017 | July 31, 2017 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 210,862 | \$ 161,851 |
| Accounts receivable | 53,448 | 170,047 |
| Prepaid and deposits | 37,743 | 43,070 |
| Total Current Assets | 302,053 | 374,968 |
| Goodwill (Note 3) | 1,865,123 | 1,926,167 |
| Property and Equipment (Note 4) | 49,020 | 43,818 |
| Intangible Assets (Note 5) | 497,044 | 548,139 |
| Software license Inventory (Note 6) | 294,692 | 304,337 |
| TOTAL ASSETS | \$ 3,007,932 | \$ 3,197,429 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities (Note 12) | \$ 922,999 | \$ 1,197,281 |
| Deferred revenue (Note 7) | 552,037 | 477,997 |
| Notes payable (Note 8) | 19,946 | 20,598 |
| Current portion of finance lease obligation (Note 9) | 8,200 | 8,328 |
| Current portion of convertible debentures (Note 10) | 30,027 | 30,525 |
| Other liabilities | 17,708 | 18,288 |
| Total Current Liabilities | 1,550,917 | 1,753,017 |
| Finance Lease Obligations (Note 9) | 1,546 | 3,875 |
| Secured Convertible Debentures (Note 10) | 1,157,217 | 1,195,092 |
| Total long-term liabilities | 1,158,763 | 1,198,967 |
| TOTAL LIABILITIES | 2,709,680 | 2,951,984 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 11) | 4,391,637 | 4,168,842 |
| Contributed surplus | 534,881 | 520,067 |
| Foreign currency translation adjustment | (39,570) | (18,946) |
| Deficit | (4,588,696) | (4,424,518) |
| TOTAL SHAREHOLDERS' EQUITY | 298,252 | 245,445 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 3,007,932 | \$ 3,197,429 |

Subsequent events (Note 10 and 11).

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

HEALTHSPACE DATA SYSTEMS LTD.**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

| | Three months ended October 31, | |
|--|--------------------------------|--------------|
| | 2017 | 2016 |
| REVENUE | | |
| Subscriptions | \$ 463,695 | \$ 461,928 |
| Contract and implementation | 17,480 | 27,048 |
| Total Revenue | 481,175 | 488,976 |
| OPERATING EXPENSES | | |
| Amortization | 50,383 | 42,436 |
| Amortization – software licenses | 34,142 | 27,131 |
| Advertising and travel | 25,317 | 71,125 |
| Consulting fees (Note 12) | 107,881 | 463,098 |
| Filing fees and subscriptions | 11,424 | 6,541 |
| Insurance | 25,556 | 33,035 |
| Office expenses | 8,446 | 14,019 |
| Professional fees (Note 12) | 50,924 | 100,671 |
| Rent | 17,747 | 15,900 |
| Salaries and wages | 216,232 | 262,324 |
| Share-based compensation | 14,741 | - |
| Hosting and telecommunication | 77,919 | 75,204 |
| Total operating expenses | 640,712 | 1,111,484 |
| LOSS FROM OPERATIONS | (159,537) | (622,508) |
| OTHER INCOME (EXPENSES) | | |
| Interest and finance costs (Note 12) | (46,010) | (59,323) |
| Foreign currency exchange gain (loss) | (587) | (2,302) |
| Gain on debt settlement | 41,932 | - |
| Other revenue | 24 | 212 |
| NET LOSS | (164,178) | (683,921) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Items that may be reclassified to profit and loss | | |
| Foreign currency translation adjustment | (20,624) | 2,357 |
| COMPREHENSIVE LOSS | \$ (184,802) | \$ (681,564) |
| BASIC AND DILUTED LOSS PER SHARE (Note 14) | \$ (0.002) | \$ (0.011) |
| BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 97,763,688 | 62,138,118 |

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

HEALTHSPACE DATA SYSTEMS LTD.

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

| | Share capital | | Contributed surplus | Foreign currency translation adjustment | Deficit | Total |
|---|-------------------|---------------------|---------------------|---|-----------------------|---------------------|
| | Number of shares | Amount | | | | |
| Balance, July 31, 2016 | 50,419,232 | \$ 2,673,317 | \$ 276,551 | \$ (26,047) | \$ (2,603,571) | \$ 320,250 |
| Shares issued in private placement | 37,207,040 | 1,388,009 | - | - | - | 1,388,009 |
| Shares issued as share issue costs | 2,000,000 | - | - | - | - | - |
| Warrants issued to finders | - | (20,144) | 20,144 | - | - | - |
| Cash share issue costs | - | (61,059) | - | - | - | (61,059) |
| Shares issued for debt | 1,156,666 | 51,779 | - | - | - | 51,779 |
| Foreign currency translation adjustment recognized directly in equity | - | (72,165) | (7,466) | 79,631 | - | - |
| Other comprehensive income | - | - | - | 2,357 | - | 2,357 |
| Net loss | - | - | - | - | (683,921) | (683,921) |
| Balance, October 31, 2016 | 90,782,938 | \$ 3,959,737 | \$ 289,229 | \$ 55,941 | \$ (3,287,492) | \$ 1,017,415 |
| Balance, July 31, 2017 | 92,702,438 | \$ 4,168,842 | \$ 520,067 | \$ (18,946) | \$ (4,424,518) | \$ 245,445 |
| Shares issued in the first tranche of the private placement | 2,350,000 | 93,981 | - | - | - | 93,981 |
| Cash share issue costs | - | (1,300) | - | - | - | (1,300) |
| Shares issued for debt | 2,711,250 | 130,114 | - | - | - | 130,114 |
| Options granted as part of share based compensation | - | - | 14,814 | - | - | 14,814 |
| Other comprehensive income (loss) | - | - | - | (20,624) | - | (20,624) |
| Net loss | - | - | - | - | (164,178) | (164,178) |
| Balance, October 31, 2017 | 97,763,688 | \$ 4,391,637 | \$ 534,881 | \$ (39,570) | \$ (4,588,696) | \$ 298,252 |

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

HEALTHSPACE DATA SYSTEMS LTD.**Condensed Consolidated Interim Statement of Cash Flows**

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

| | Three months ended October 31, | |
|---|---------------------------------------|-------------------|
| | 2017 | 2016 |
| OPERATING ACTIVITIES | | |
| Net loss | \$ (164,178) | \$ (683,921) |
| Adjustments for: | | |
| Amortization of property and equipment, and intangible assets | 15,606 | 42,436 |
| Amortization of software licenses | 50,383 | 27,131 |
| Interest | 46,010 | 10,166 |
| Gain on debt settlement | (41,932) | - |
| Share-based compensation | 14,741 | - |
| | (79,370) | (604,188) |
| Net change in non-cash working capital items | | |
| Increase (decrease) in accounts payable | (105,451) | 45,235 |
| Increase (decrease) in accounts receivable | 116,599 | 67,620 |
| Increase (decrease) in other receivable | - | (50,084) |
| Increase (decrease) in deferred revenue | 74,040 | (124,395) |
| Increase (decrease) in prepaid and deposits | 5,327 | (53,346) |
| | 11,145 | (719,158) |
| | | |
| Interest paid | (42,795) | (111,228) |
| | (31,650) | (830,386) |
| INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | (20,808) | - |
| Acquisition of intangible assets | - | (38,626) |
| | (20,808) | (38,626) |
| FINANCING ACTIVITIES | | |
| Payments on finance lease obligations | (2,457) | (59,440) |
| Payments on debt | - | (1,666,063) |
| Proceeds from issuance of convertible debenture | - | 1,143,750 |
| Proceeds from issuance of shares, net of share issue costs | 92,681 | 1,358,585 |
| | 90,224 | 776,832 |
| | | |
| Cash increase (decrease) | 37,766 | (92,180) |
| Effect of movements in exchange rates on cash | 11,245 | (9,113) |
| CASH, beginning of period | 161,851 | 348,484 |
| CASH, end of period | \$ 210,862 | \$ 247,191 |

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

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

HealthSpace Data Systems Ltd., formerly known as HealthSpace Informatics Ltd. (“HealthSpace” or the “Company”), was formed on May 15, 2015 on the amalgamation of NST Holdings Ltd. (“NST”) and its wholly owned subsidiary companies, HealthSpace Informatics Ltd. (“HealthSpace 2009”), HealthSpace Informatics USA Inc. (“HealthSpace USA”), Joule Microsystems Inc. and Joule Biosystems Inc. NST was incorporated in the Province of British Columbia, Canada on October 31, 2014. HealthSpace 2009 was incorporated in the Province of British Columbia, Canada on July 31, 2009, on the amalgamation of HealthSpace Integrated Solutions Ltd. and Joule Microsystems Canada Inc. HealthSpace USA was incorporated in the State of Virginia on December 28, 2000.

The principal business activity of the Company is the development and sale of information and communication management systems for health inspection departments of federal, provincial, state and municipal governments in Canada and the United States of America. The head office of the Company is located at 201-7491 Vedder Road, Chilliwack, British Columbia, V2R 6E7.

Financial Statement Presentation Framework

The condensed consolidated interim financial statements for the three months ended October 31, 2017 include the financial information of HealthSpace and its wholly owned subsidiary HealthSpace USA Inc.

Going Concern

As at October 31, 2017 the Company had a working capital deficiency of \$1,248,864 (July 31, 2017 - deficiency of \$1,378,049) and will therefore need funding to continue its operations. There is no assurance that additional funding will be available on a timely basis or on terms acceptable to the Company. If the Company is unable to obtain sufficient funding, the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles to a going concern will be in doubt.

These condensed consolidated interim financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These condensed consolidated interim financial statements do not reflect the adjustments or reclassifications which would be necessary if the Company were unable to continue its operations in the normal course of business.

2. BASIS OF PREPARATION

Statement of Compliance

The Company prepared these condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee (“IFRIC”).

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

2. BASIS OF PREPARATION (continued)

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* (“IAS 34”), using accounting policies which are consistent with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). They do not include all of the information required for full annual financial statements in compliance with IAS 1 *Presentation of Financial Statements* (“IAS 1”).

Except as noted below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual audited combined financial statements for the year ended July 31, 2017 and should be read in conjunction with those audited combined financial statements. These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue on December 20, 2017.

Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for cash and financial instruments classified as fair value through profit or loss or available-for-sale that have been measured at fair value, and are presented in US dollars.

Presentation and Functional Currencies

The Company has selected the US dollar as the presentation currency of these condensed consolidated interim financial statements. The assets, liabilities and equity of the Company are translated to US dollars at the foreign exchange rates in effect at the end of the period. The income and expenses of the Company are translated at the foreign exchange rates at the dates of the transactions. All gains and losses on translation of these foreign currency transactions are included in other comprehensive income or loss or recognized directly in equity and accumulated in the foreign currency translation adjustment reserve.

Foreign exchange rates used for currency translation in these condensed consolidated interim financial statements include:

| Period end dates | US to CDN | CDN to US |
|-------------------------|------------------|------------------|
| July 31, 2017 | \$1.2485 | \$0.8010 |
| October 31, 2017 | \$1.2893 | \$0.7756 |

| Period averages | US to CDN | CDN to US |
|-------------------------------------|------------------|------------------|
| Three months ended October 31, 2016 | \$1.3114 | \$0.7625 |
| Three months ended October 31, 2017 | \$1.2503 | \$0.7998 |

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

3. GOODWILL

Goodwill, representing the sales and growth potential of HealthSpace 2009 arising from the acquisition of HealthSpace by Britannica HealthSpace Holdings Ltd. on November 21, 2013 was recognized as follows:

| | | |
|--------------------------------------|----|-----------|
| Goodwill, July 31, 2016 | \$ | 1,843,926 |
| Effect of movement in exchange rates | | 82,241 |
| Goodwill, July 31, 2017 | | 1,926,167 |
| Effect of movement in exchange rates | | 61,044 |
| Goodwill, October 31, 2017 | \$ | 1,865,123 |

None of the goodwill recognized is expected to be deductible for tax purposes and, as of October 31, 2017 no impairment has been identified.

4. PROPERTY AND EQUIPMENT

| | Computer Hardware | Furniture and Equipment | Total |
|--------------------------------------|----------------------|----------------------------|-------------------|
| COST | | | |
| Balances, July 31, 2016 | \$ 94,909 | \$ 4,229 | \$ 99,138 |
| Additions | 3,723 | - | 3,723 |
| Effect of movement in exchange rates | 3,874 | - | 3,874 |
| Balance, July 31, 2017 | 102,505 | 4,229 | 106,734 |
| Additions | 22,249 | - | 22,249 |
| Effect of movement in exchange rates | 726 | - | 726 |
| Balance, October 31, 2017 | \$ 125,481 | \$ 4,229 | \$ 129,710 |
| ACCUMULATED AMORTIZATION | | | |
| Balances, July 31, 2016 | \$ 41,695 | \$ 1,855 | \$ 43,550 |
| Amortization | 15,502 | 475 | 15,977 |
| Effect of movement in exchange rates | 2,389 | - | 2,389 |
| Balance, July 31, 2016 | 60,587 | 2,330 | 62,917 |
| Amortization | 15,512 | 95 | 15,606 |
| Effect of movement in exchange rates | 2,166 | - | 2,166 |
| Balance, October 31, 2017 | \$ 78,264 | \$ 2,425 | \$ 80,689 |
| NET BOOK VALUE | | | |
| Balance, July 31, 2016 | \$ 53,214 | \$ 2,374 | \$ 55,588 |
| Balance, July 31, 2017 | \$ 41,919 | \$ 1,899 | \$ 43,818 |
| Balance, October 31, 2017 | \$ 47,216 | \$ 1,804 | \$ 49,020 |

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

5. INTANGIBLE ASSETS

| COST | Unpatented technology | Customer relationships and contracts | Inspection application (5a) | Customizable Application (5b) | Total |
|--|----------------------------------|---|--|--|-------------------|
| Balance, July 31, 2016 | \$ 121,739 | \$ 30,718 | \$ 470,180 | \$ 57,262 | \$ 679,899 |
| Additions from acquisitions | - | - | 22,207 | - | 22,207 |
| Additions from internal development | - | - | - | 148,145 | 148,145 |
| Effect of movements in exchange rates | 5,431 | 1,370 | 22,314 | 11,518 | 40,633 |
| Balance, July 31, 2017 | 127,170 | 32,088 | 514,701 | 216,925 | 890,884 |
| Additions from acquisitions | - | - | - | - | - |
| Additions from internal development | - | - | - | - | - |
| Effect of movements in exchange rates | (4,031) | (1,017) | (16,313) | (6,875) | (28,236) |
| Balance, October 31, 2017 | \$ 123,139 | \$ 31,071 | \$ 498,388 | \$ 210,050 | \$ 862,648 |
| ACCUMULATED AMORTIZATION AND IMPAIRMENT | | | | | |
| Balance, July 31, 2016 | \$ 54,588 | \$ 8,265 | \$ 102,709 | \$ 954 | \$ 166,516 |
| Amortization | 19,986 | 3,025 | 123,111 | 13,048 | 159,170 |
| Effect of movements in exchange rates | 3,644 | 552 | 12,030 | 832 | 17,058 |
| Balance, July 31, 2017 | 78,218 | 11,842 | 237,850 | 14,834 | 342,744 |
| Amortization | 5,291 | 801 | 22,807 | 5,877 | 34,776 |
| Effect of movements in exchange rates | (2,639) | (400) | (8,229) | (648) | (11,916) |
| Balance, October 31, 2017 | \$ 80,870 | \$ 12,243 | \$ 252,428 | \$ 20,063 | \$ 365,604 |
| NET BOOK VALUE | | | | | |
| Balance, July 31, 2016 | \$ 67,151 | \$ 22,453 | \$ 367,471 | \$ 56,308 | \$ 513,383 |
| Balance, July 31, 2017 | \$ 48,952 | \$ 20,246 | \$ 276,851 | \$ 202,091 | \$ 548,139 |
| Balance, October 30, 2017 | \$ 42,269 | \$ 18,828 | \$ 245,960 | \$ 189,987 | \$ 497,044 |

The amortization of unpatented technology and customer relationships and contracts is included in "Amortization" in the consolidated statement of loss and comprehensive loss.

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

5. INTANGIBLE ASSETS (continued)

5 (a) Inspection application

On May 1, 2015, the Company acquired an iOS- and Android-compatible inspection application and related online tools from iGov Inc. ("iGov") for fixed and variable consideration of up to \$1.25 million. The technology was made available to the public on the Android app store on November 1, 2015. The consideration for this acquisition as at October 31, 2017 is:

| | |
|--|-----------|
| Shares to be issued based on gross qualifying product licenses sold before January 1, 2017 calculated at the share price on January 31, 2017 | 261,800 |
| 10% royalty on gross license revenues earned before October 31, 2017 | \$ 16,236 |

5 (b) Customizable application

Customizable application consists of internally developed software for which the Company capitalized \$nil during the three months ended October 31, 2017 (July 31, 2017 – \$148,145).

6. SOFTWARE LICENSE INVENTORY

| COST | Licenses |
|--|-------------------|
| Balance, July 31, 2016 | \$ 291,343 |
| Effect of movements in exchange rates | 12,994 |
| Balance, July 31, 2017 | 304,337 |
| Effect of movements in exchange rates | (9,645) |
| Balance, October 31, 2017 | \$ 294,692 |
| ACCUMULATED AMORTIZATION AND IMPAIRMENT | |
| Balance, July 31, 2016 | \$ - |
| Balance, July 31, 2017 | - |
| Balance, October 31, 2017 | \$ - |
| NET BOOK VALUE | |
| Balance, July 31, 2016 | \$ 291,343 |
| Balance, July 31, 2016 | \$ 304,337 |
| Balance, April 30, 2017 | \$ 294,692 |

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

6. SOFTWARE LICENSE INVENTORY (continued)

The Company has entered into an agreement with IBM Canada to be an authorized service provider. As part of this agreement, the Company currently holds 3,043 usage licenses and 1,100 server processor licenses from IBM Canada and is authorized to distribute the usage rights to clients of the Company. These licenses remain under the control of the Company and are property of the Company as long as the Company holds a maintenance contract with IBM Canada. The current subscription and support contract expires on January 31, 2018, at which time it is expected to be renewed.

7. DEFERRED REVENUE

Deferred revenue represents customer payments received for software support and maintenance services to be provided over the next one to eight years.

| | October 31, 2017 | July 31, 2017 |
|---|------------------|---------------|
| Wisconsin Department of Health | \$ 172,325 | \$ - |
| Health Canada First Nations and Inuit Health Branch | 54,220 | 57,024 |
| Other | 325,492 | 420,973 |
| Total | \$ 552,037 | \$ 477,997 |

8. NOTES PAYABLE

The note payable does not bear interest and is due on demand.

9. FINANCE LEASE OBLIGATIONS

The Company has leased computer hardware under two finance leases. At October 31, 2017, the net carrying amount of leased computer hardware included in property and equipment is \$9,746 (July 31, 2017 - \$12,202).

Lease terms range from one to three years. Interest rates underlying all obligations under finance leases are fixed at rates ranging from 24% to 29%.

Future minimum lease payments related to the obligations under the finance leases are:

| | |
|------------------------|-----------|
| 2018 | \$ 11,269 |
| Less: Imputed interest | (1,523) |
| Less: Current portion | (8,200) |
| Long-term portion | \$ 1,546 |

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

10. CONVERTIBLE DEBENTURES

| | October 31, 2017 | July 31, 2017 |
|---|------------------|---------------|
| Convertible debentures – <i>Note 10(a)</i> | \$ 30,027 | \$ 30,884 |
| Secured convertible debenture – <i>Note 10(b)</i> | 1,157,217 | 1,195,092 |
| | \$ 1,187,244 | \$ 1,225,617 |
| Less: Current portion | 30,027 | 30,525 |
| | \$ 1,157,217 | \$ 1,195,092 |

10 (a)

The convertible debentures have the following terms:

- At any time, the debenture holder may convert all or a portion of the outstanding principal into common shares at a price of \$0.66 per share.
- On July 31, 2014, the Company exercised its option to defer the maturity of the convertible debentures to July 31, 2017. The Company is required to repay the accrued and unpaid principal and interest at July 31, 2014 in three equal installments on July 31, 2015, 2016 and 2017. The balance outstanding accrues interest at the rate of 7% per annum. On July 31, 2017, the Company deferred the maturity of the convertible debentures to January 15, 2018.

10 (b)

The secured convertible debenture is with seven entities and has the following terms:

- At any time before September 29, 2018, the holder may convert all or a portion of the outstanding principal into common shares at a price of \$0.075 per share if converted before September 29, 2017 and at \$0.10 if converted after September 29, 2017.
- After September 29, 2017, the Company may redeem and prepay all or a part of the principal amount with a penalty assessed as to the amount of interest remaining from the date of the redemption to be converted to common shares based on a conversion rate that would provide for a 15% discount of the volume weighted average price on closing of the preceding 20 trading days of the common shares.
- Interest is accrued on the principal amount of the debenture at a rate of 10% per annum, calculated and payable monthly on the first day of each month until September 29, 2018.
- Debenture holders hold a security interest over the Company's present and after acquired personal property.

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

10. CONVERTIBLE DEBENTURES (continued)

10 (b) (continued)

- On or after September 28, 2017, the Company may redeem and prepay all or a part of the principal amount, with a penalty equal to the amount of interest remaining on the amount redeemed or prepaid, to be converted to common shares at a conversion rate that would provide for a 15% discount of the volume weighted average price on closing of the preceding 20 trading days.

As of October 31, 2017, the carrying value of convertible debentures is \$1,157,217 (July 31, 2017 - \$1,195,092). Interest is accrued on the principal amount of the debenture at a rate of 10% per annum, calculated and payable monthly on the first day of each month until September 29, 2018. As of October 31, 2017, the principal balance on the convertible debenture is CAD\$1,500,000 (July 31, 2017 - CDN\$1,500,000).

Subsequent to the period ended October 31, 2017 CAD\$200,000 of the convertible debenture was converted to common shares of the Company.

11. SHARE CAPITAL

(a) Common Shares – Authorized

Unlimited number of Class A Common Voting Shares without par value.

(b) Issuances

Financings during the three months ended October 31, 2017

- During the three months ended October 31, 2017 the Company issued 2,711,250 shares for debt to settle CAD\$216,900 owed to consultants of the Company at a deemed price of CAD\$0.08 per share. The Company recorded a gain on debt settlement of \$41,392.
- During the three months ended October 31, 2017 the Company closed first tranche of a non-brokered private placement of 2,350,000 units at a price of \$0.05 per unit for gross proceeds of CAD\$117,500. Each unit consists of one common share and one transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share for a period of twenty-four months at a price of CAD\$0.05 per warrant share. The Company paid CAD\$1,625 in finders' fee.

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

11. SHARE CAPITAL (continued)

(a) Issuances (continued)

Financings during the year ended July 31, 2017

- On September 30, 2016, the Company closed its first tranche of equity offering and issued 29,907,040 units for gross proceeds of CDN \$1,595,352. Each unit comprised of one common share and one half of one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share for CDN \$0.075 for a period of twelve months.
- On October 28, 2016, the Company closed its second tranche of equity offering and issued 7,300,000 units for gross proceeds of CDN \$365,000. Each unit comprised of one common share and one half of one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share for CDN \$0.075 for a period of twelve months. As part of this financing, the Company paid cash share issue costs of CDN \$81,837, issued 2,000,000 common shares and issued 1,097,740 share purchase warrants to the finders entitling the holder to purchase common shares for CDN \$0.075 per share for a period of twelve months.
- On October 17, 2016, the Company issued 1,156,666 shares, at a price of CDN\$0.06 per share, for the settlement of CDN\$69,400 in debt to three creditors for services provided to the Company.

Subsequent to the period ended October 31, 2017, 2,000,000 shares were issued upon exercise of part of the convertible debenture (Note 10(b)) and 100,000 shares were issued upon exercise of stock options.

Subsequent to the period ended October 31, 2017 the Company the second and final tranche of its non-brokered private placement of 14,650,000 units at a price of \$0.05 per unit for gross proceeds of \$732,500. Each unit consists of one common share and one transferable share purchase warrant. Each whole warrant will entitle the holder to acquire one additional common share exercisable for a period of twenty-four months following the closing of the private placement at a price of CAD\$0.05 per warrant share. The securities will be subject to a four month and one-day hold period under securities laws. Finder's fees totaling \$23,450 were paid on the financing and 469,000 broker warrants exercisable at a price of \$0.05 for a period of two years were issued.

Subsequent to the period ended October 31, 2017 the Company closed a private placement and issued 10,600,000 shares at a price of CAD\$0.10.

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

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11. SHARE CAPITAL (continued)

(b) Share Options

During the year ended July 31, 2017 the following stock options were granted:

- On November 24, 2016, the Company granted 3,550,000 share options to purchase common shares of the Company to directors, senior management, contractors and employees. Share options vest over one year and expire five years after the grant date. The exercise price is based on the fair market value of the common shares at the grant date.
- From January through March 2017, the Company granted 675,000 share options to purchase common shares of the Company to contractors. Share options vest over one year and expire five years after the grant date. The exercise price is based on the fair market value of the common shares at the grant date.

The following is a summary of the Company's share options outstanding as at October 31, 2017:

| Options outstanding | Options exercisable | Exercise price, CAD\$ | Expiry date |
|---------------------|---------------------|-----------------------|-------------------|
| 420,000 | 318,750 | \$ 0.20 | February 28, 2021 |
| 1,700,000 | 1,593,837 | \$ 0.08 | November 30, 2020 |
| 3,490,000 | 2,617,500 | \$ 0.08 | November 24, 2021 |
| 300,000 | 225,000 | \$ 0.08 | January 20, 2022 |
| 75,000 | 37,500 | \$ 0.08 | March 8, 2022 |
| 75,000 | 75,000 | \$ 0.08 | March 17, 2022 |
| 6,060,000 | 4,867,587 | | |

The following is a continuity of the share options as at October 31, 2017:

| | Three months ended October 31, 2017 | | Year ended July 31, 2017 | |
|------------------------------|--|---------------------------------------|-----------------------------|---------------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Balance, beginning of period | 6,345,000 | \$ 0.12 | 2,945,000 | \$ 0.20 |
| Granted | - | \$ - | 4,225,000 | \$ 0.06 |
| Cancelled | (285,000) | \$ 0.08 | (825,000) | \$ 0.20 |
| Balance, end of period | 6,060,000 | \$ 0.12 | 6,345,000 | \$ 0.12 |
| Exercisable, end of period | 4,867,587 | \$ 0.13 | 4,757,014 | \$ 0.13 |

The Company recorded \$18,430 in share-based compensation related to share options vested during the three months ended October 31, 2017 (2016 - \$nil).

HEALTHSPACE DATA SYSTEMS LTD.

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11. SHARE CAPITAL (continued)

(b) Share Options (continued)

Subsequent to the period ended October 31, 2017 100,000 stock options were exercised at a price of CAD\$0.08 per common share.

Subsequent to the period ended October 31, 2017 the Company granted 2,375,000 stock options at an exercise price of \$0.15 cents per share for a five-year term.

(c) Restricted Share Units Granted

The following is a continuity of the restricted share units (RSU) as at October 31, 2017:

| | Number of RSU outstanding | Number of RSU vested |
|---------------------------|---------------------------|----------------------|
| Balance, July 31, 2016 | - | - |
| Balance, July 31, 2017 | 1,200,000 | 300,000 |
| Cancelled | (300,000) | - |
| Balance, October 31, 2017 | 900,000 | 300,000 |

During the year ended July 31, 2017, the Company granted 1,200,000 restricted stock units with the following vesting schedule:

- 25% vest immediately,
- 25% to vest upon the Company achieving a total revenue of \$4 million for year ending July 31, 2017 (not achieved), and
- 50% to vest upon the Company achieving a total revenue of \$9 million for year ending July 31, 2018.

Subsequent to the three months ended October 31, 2017 the Company granted 1,100,000 restricted share units with the following vesting schedule: $\frac{1}{4}$ every first four quarters from the date of grant.

(d) Share Purchase Warrants

During the three months ended October 31, 2017 the Company closed the first tranche of a non-brokered private placement of 2,350,000 units at a price of \$0.05 per unit for gross proceeds of \$93,981. Each unit consists of one common share and one transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share for a period of twenty-four months at a price of CAD\$0.05 per warrant share. The warrants were valued at \$nil.

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11. SHARE CAPITAL (continued)

(d) Share Purchase Warrants (continued)

During the year ended July 31, 2017, as part of the completion of the September 30 and October 28, 2016 non-brokered private placements, the Company issued 1,097,740 finder's warrants with an exercise price of CDN\$0.075 per warrant and expiry of September 29, 2017 and October 27, 2017. These finder's warrants were valued at \$nil.

The following is a continuity of the share purchase warrants as at October 31, 2017:

| | Three months ended October 31, 2017 | | Year ended July 31, 2017 | |
|------------------------------|--|---------------------------------------|-----------------------------|---------------------------------------|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Balance, beginning of period | 18,847,860 | \$ 0.08 | 1,066,100 | \$ 0.20 |
| Granted | 1,850,000 | \$ 0.075 | 19,701,260 | \$ 0.08 |
| Exercised | - | \$ - | (1,919,500) | \$ 0.08 |
| Expired | (17,781,760) | \$ 0.08 | - | - |
| Balance, end of period | 2,916,100 | \$ 0.08 | 18,847,860 | \$ 0.08 |
| Exercisable, end of period | 1,066,100 | \$ 0.20 | 18,847,860 | \$ 0.08 |

The weighted average remaining life of the warrants outstanding as at October 31, 2017 is 2 years (July 31, 2017 - 0.19 years).

Exercise of warrants during the year ended July 31, 2017

During the year ended July 31, 2017, 1,919,500 shares were issued for warrants exercised at CAD\$0.075 per share for proceeds of \$108,856 (CDN\$143,963).

12. RELATED PARTY TRANSACTIONS

Transactions with Directors and Management

As at October 31, 2017, accounts payable and accrued liabilities included \$12,611 (July 31, 2017 - \$39,590) owing to a director and companies controlled by directors.

For the three months ended October 31, 2017, \$42,991 (2016 - \$262,664) in consulting and accounting fees were paid to companies controlled by directors and former directors. Salaries and other short-term employee benefits paid to the Company's key management personnel and former key management personnel, who have the authority and responsibility for planning, directing and controlling the activities of the Company, were \$51,221 for the three months ended October 31, 2017 (2016 - \$37,444).

HEALTHSPACE DATA SYSTEMS LTD.

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Unaudited (Expressed in US dollars)

12. RELATED PARTY TRANSACTIONS (continued)

Transactions with Lenders

For the three months ended October 31, 2017 and year ended July 31, 2017, \$nil was advanced from a fund controlled by a former director and a former officer of the Company. During the year ended July 31, 2017, CDN\$2,116,745 of notes payable and secured loans advanced was repaid. \$42,050 of interest was paid on loans advanced by the same fund for the year ended July 31, 2017.

13. COMMITMENTS

At October 31, 2017, the Company has lease commitments related to the purchase of computer hardware and maintenance of software licenses (Note 9).

The Company has entered into agreements for the rental of premises. The minimum future annual payments under the leases as at October 31, 2017 are \$11,269.

14. LOSS PER SHARE

The Company's financial instruments which could potentially dilute loss per share consist of the convertible debentures and common share purchase options and warrants. The Company's convertible debentures and common share purchase options and warrants are antidilutive for the three months ended October 31, 2017 and year ended July 31, 2017. Therefore, the Company's diluted loss per share is equal to its basic loss per share.

15. OPERATING SEGMENTS

The Company operates in one industry segment within two geographical areas, Canada and the United States of America.

| | Canada | United States of America | Total |
|--|---------------|-----------------------------|---------------|
| For the three months ended October 31, 2017 | | | |
| External subscription revenues | \$ 117,600 | \$ 346,095 | \$ 463,695 |
| External contract and implementation revenues | \$ - | \$ 17,480 | \$ 17,480 |
| As at October 31, 2017 | | | |
| Property and equipment | \$ 44,309 | \$ 4,711 | \$ 49,020 |
| Intangible asset | \$ 497,044 | \$ - | \$ 497,044 |
| Software license inventory | \$ 294,692 | \$ - | \$ 294,692 |
| Goodwill | \$ 1,865,123 | \$ - | \$ 1,865,123 |
| <i>Total assets</i> | \$ 2,919,942 | \$ 87,989 | \$ 3,007,932 |
| <i>Total liabilities</i> | \$(2,215,234) | \$ (494,446) | \$(2,709,680) |

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2017 and 2016

Unaudited (Expressed in US dollars)

15. OPERATING SEGMENTS (continued)

For the three months ended

October 31, 2016

| | | | |
|---|------------|------------|------------|
| External subscription revenues | \$ 112,139 | \$ 349,789 | \$ 461,928 |
| External contract and implementation revenues | \$ - | \$ 27,048 | \$ 27,048 |

As at July 31, 2017

Non-current assets

| | | | |
|----------------------------|----------------|--------------|----------------|
| Property and equipment | \$ 38,748 | \$ 5,070 | \$ 43,818 |
| Intangible assets | \$ 548,139 | \$ - | \$ 548,139 |
| Software license inventory | \$ 304,337 | \$ - | \$ 304,337 |
| Goodwill | \$ 1,926,167 | \$ - | \$ 1,926,167 |
| <i>Total assets</i> | \$ 2,947,768 | \$ 249,661 | \$ 3,197,429 |
| <i>Total liabilities</i> | \$ (2,581,650) | \$ (370,334) | \$ (2,951,984) |

For the three months ended October 31, 2017, revenues from two major customers in the United States of America represented approximately \$142,600 (2016 - \$178,938) of the Company's total revenues (Note 17).

16. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and sale of information and communication management systems, and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company considers its capital for this purpose to be its shareholders' equity.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares or debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

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17. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments are exposed to certain risks, including credit risk, interest rate risk, liquidity risk and other market risk.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash is held through large Canadian financial institutions. The Company considers credit risk on its cash to be minimal.

The Company's receivables consist of Goods and Services Tax due from the Federal Government of Canada and amounts receivable from customers. The Company's maximum exposure to credit risk as at October 31, 2017 is \$53,448 (July 31, 2017 - \$170,047), representing accounts receivable and other receivables.

The Company considers credit risk on its receivables from the Federal Government of Canada to be minimal.

For amounts due from customers, the Company performs ongoing credit evaluations of its customers and monitors the receivable balance and the payments made in order to determine if an allowance for estimated credit losses is required. When determining the allowance for estimated credit losses the Company will consider historical experience with the customer, current market and industry conditions and any specific collection issues. As at October 31, 2017, \$nil of customer receivables are past due (July 31, 2017 - \$91,758). As at October 31, 2017, the Company's two largest customers accounted for \$20,744 of accounts receivable (July 31, 2017 - \$59,275).

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk from its secured loans, convertible debentures and notes payable. The risk that the Company will realize a loss as a result of an increase of 1% in the prime interest rate is minimal as the majority of the Company's borrowings are at a fixed rate.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 16. Accounts payable and accrued liabilities, notes payable and other liabilities are all due within the current operating period. Finance lease obligations are due based on the terms disclosed in Note 10. Convertible debentures are due based on the terms disclosed in Note 11.

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

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Unaudited (Expressed in US dollars)

17. MANAGEMENT OF FINANCIAL RISK (continued)

Other Market Risk

Other market risk that the Company is exposed to includes currency risk. Currency risk is the risk of loss due to fluctuation of foreign exchange rates and the effects of these fluctuations on foreign currency denominated monetary assets and liabilities. The Company is not exposed to significant currency risk as the parent entity and subsidiaries primarily transact in their functional currencies. The Company does not invest in derivatives to mitigate these risks.

18. COMMITMENTS

At October 31, 2017, the Company has lease commitments related to the purchase of computer hardware and maintenance of software licenses (Note 10).

The Company has entered into agreements for the rental of premises. The minimum future annual payments under the leases are: Years ended July 31:

2018 - \$63,656

2019 - \$61,490