

HEALTHSPACE DATA SYSTEMS LTD.

Condensed Consolidated Interim Financial Statements

For the six months ended January 31, 2018 and 2017
(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**

For the Six Months Ended January 31, 2018 and 2017

Unaudited (Expressed in US dollars)

	January 31, 2018	July 31, 2017
ASSETS		
Current Assets		
Cash	\$ 659,468	\$ 161,851
Accounts receivable	256,653	170,047
GST receivable	26,440	-
Prepaid and deposits	57,790	43,070
Total Current Assets	1,000,351	374,968
Goodwill (Note 3)	1,956,156	1,926,167
Property and Equipment (Note 4)	56,146	43,818
Intangible Assets (Note 5)	568,675	548,139
Software license Inventory (Note 6)	309,075	304,337
TOTAL ASSETS	\$ 3,890,403	\$ 3,197,429
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 12)	\$ 646,594	\$ 1,197,281
Deferred revenue (Note 7)	349,927	477,997
Notes payable (Note 8)	20,918	20,598
Current portion of finance lease obligation (Note 9)	8,167	8,328
Current portion of convertible debentures (Note 10)	440,088	30,525
Other liabilities	18,572	18,288
Total Current Liabilities	1,484,266	1,753,017
Finance Lease Obligations (Note 9)	-	3,875
Secured Convertible Debentures (Note 10)	-	1,195,092
Total long-term liabilities	-	1,198,967
TOTAL LIABILITIES	1,484,266	2,951,984
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	6,629,067	4,168,842
Contributed surplus	586,456	520,067
Foreign currency translation adjustment	42,594	(18,946)
Deficit	(4,851,980)	(4,424,518)
TOTAL SHAREHOLDERS' EQUITY	2,406,137	245,445
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,890,403	\$ 3,197,429

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 Six Months Ended January 31, 2018 and 2017

Unaudited (Expressed in US dollars)

	Three months ended January 31,		Six months ended January 31,	
	2018	2017	2018	2017
REVENUE				
Subscriptions	\$ 493,032	\$ 524,971	\$ 956,727	\$ 986,899
Contract and implementation	69,640	14,000	87,120	41,048
Total Revenue	562,672	538,971	1,043,847	1,027,947
OPERATING EXPENSES				
Amortization	41,225	42,441	91,608	84,877
Software licenses (Note 6)	33,750	33,292	67,892	60,423
Advertising and travel	11,624	83,637	36,941	149,959
Consulting fees (Note 12)	198,181	77,165	306,062	540,263
Filing fees and subscriptions	13,867	14,710	25,291	21,251
Insurance	27,295	14,874	52,851	47,909
Information technology expenses	310	-	310	-
Meals and entertainment	7,237	2,900	7,237	7,703
Office expenses	7,136	7,052	15,582	21,071
Professional fees (Note 12)	(14,038)	133,259	36,886	233,930
Rent	15,579	18,060	33,326	33,960
Salaries and wages	289,846	247,271	506,078	509,595
Sales commission	5,825	-	5,825	-
Share-based payments (Note 11 and 12)	80,134	88,054	94,875	88,054
Hosting and telecommunication	48,644	71,867	126,563	147,071
Total operating expenses	766,615	834,582	1,407,327	1,946,066
LOSS FROM OPERATIONS	(203,943)	(295,611)	(363,480)	(918,119)
OTHER INCOME (EXPENSES)				
Interest and finance costs (Note 12)	(37,569)	(39,036)	(83,579)	(98,359)
Foreign currency exchange (loss)	(3,640)	(1,318)	(4,227)	(3,620)
Gain on debt settlement (Note 11)	(241)	-	41,691	-
Other revenue	(17,891)	(2)	(17,867)	210
NET LOSS	(263,284)	(335,967)	(427,462)	(1,019,888)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified to profit and loss				
Foreign currency translation adjustment	82,164	(23,495)	61,540	(21,138)
COMPREHENSIVE LOSS	\$ (181,120)	\$ (359,462)	\$ (365,922)	\$ (1,041,026)
BASIC AND DILUTED LOSS PER SHARE (Note 14)	\$ (0.002)	\$ (0.004)	\$ (0.004)	\$ (0.013)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
	120,335,764	91,025,938	107,592,797	76,660,956

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 Six Months Ended January 31, 2018 and 2017

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	1,407,728	-	-	-	1,407,728
Shares issued as share issue costs	2,000,000	-	-	-	-	-
Warrants issued to finders	-	(23,512)	23,512	-	-	-
Cash share issue costs	-	(69,491)	-	-	-	(69,491)
Shares issued for debt	1,156,666	52,515	-	-	-	52,515
Warrants exercised	1,919,500	108,936	-	-	-	108,936
Grant of options to management and employees	-	-	88,054	-	-	88,054
Foreign currency translation adjustment recognized directly in equity	-	23,509	1,845	-	-	25,354
Other comprehensive income	-	-	-	(21,138)	-	(21,138)
Net loss	-	-	-	-	(1,019,888)	(1,019,888)
Balance, January 31, 2017	92,702,438	\$ 4,173,002	\$389,962	\$ (47,185)	\$ (3,623,459)	\$ 892,320
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	27,600,000	1,502,172	-	-	-	1,502,172
Warrants issued to finders	-	(26,941)	26,941	-	-	-
Cash share issue costs	-	(69,349)	-	-	-	(69,349)
Shares issued for debt	2,711,250	129,364	-	-	-	129,364
Shares issued pursuant to iGov asset purchase agreement	261,800	32,560	-	-	-	32,560
Share options exercised	1,150,000	124,970	-	-	-	124,970
Restricted share units exercised	112,500	6,111	(6,111)	-	-	-
Convertible debentures exercised	9,550,000	761,338	-	-	-	761,338
Share purchase options granted	-	-	45,855	-	-	45,855
Foreign currency translation adjustment recognized directly in equity	-	-	(296)	-	-	(296)
Other comprehensive income	-	-	-	61,540	-	61,540
Net loss	-	-	-	-	(427,462)	(427,462)
Balance, January 31, 2018	134,087,988	\$ 6,629,067	\$586,456	\$ 42,594	\$(4,851,980)	\$ 2,406,137

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 Six Months Ended January 31, 2018 and 2017

Unaudited (Expressed in US dollars)

	Six months ended January 31,	
	2018	2017
OPERATING ACTIVITIES		
Net loss	\$ (427,462)	\$ (1,019,888)
Adjustments for non-cash items:		
Amortization of property and equipment	16,920	84,877
Amortization of intangible assets	74,688	33,292
Interest accrual	4,958	10,089
Gain on debt settlement	(41,691)	-
Share-based compensation	96,351	88,054
	(276,236)	(803,576)
Net change in working capital items		
Accounts payable	(453,940)	(56,887)
Accounts receivable	(86,606)	(247,185)
GST receivable	(26,440)	87,547
Deferred revenue	(128,070)	22,402
Prepaid and deposits	(14,720)	(11,214)
	(986,012)	(1,008,913)
INVESTING ACTIVITIES		
Acquisition of property and equipment	(28,546)	-
Acquisition of intangible assets	(88,404)	(75,145)
	(116,950)	(75,145)
FINANCING ACTIVITIES		
Payments on finance lease obligations	(4,036)	(79,851)
Payments on debt	-	(1,653,390)
Repayments of convertible debentures	-	(26,158)
Proceeds from issuance of convertible debenture	-	1,135,050
Warrants exercised	-	108,937
Share options exercised	73,522	-
Proceeds from issuance of shares, net of share issue costs	1,502,173	1,338,235
	1,571,659	822,823
Effect of movements in exchange rates on cash	28,920	(10,498)
Cash increase (decrease)	497,617	(271,733)
CASH, beginning of period	161,851	348,484
CASH, end of period	\$ 659,468	\$ 76,751

During the six months ended January 31, 2018 the Company paid \$61,365 (2017 - \$138,443) in interest.

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 Six Months Ended January 31, 2018 and 2017

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 six months ended January 31, 2018 include the financial information of HealthSpace and its wholly owned subsidiary HealthSpace USA Inc.

Going Concern

As at January 31, 2018, the Company had a working capital deficiency of \$483,915 (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 Six Months Ended January 31, 2018 and 2017

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 March 28, 2018.

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 CAD	CAD to US
July 31, 2017	\$1.2485	\$0.8010
January 31, 2018	\$1.2293	\$0.8135

Period averages	US to CAD	CAD to US
Three months ended January 31, 2017	\$1.3319	\$0.7508
Three months ended January 31, 2018	\$1.2648	\$0.7906
Six months ended January 31, 2017	\$1.3216	\$0.7567
Six months ended January 31, 2018	\$1.2575	\$0.7952

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended January 31, 2018 and 2017

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		29,989
Goodwill, January 31, 2018	\$	1,956,156

None of the goodwill recognized is expected to be deductible for tax purposes and, as of January 31, 2018 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	3,873	-	3,873
Balance, July 31, 2017	102,505	4,229	106,734
Additions	28,546	-	28,546
Effect of movement in exchange rates	702	-	702
Balance, January 31, 2018	\$ 131,753	\$ 4,229	\$ 135,982
ACCUMULATED AMORTIZATION			
Balances, July 31, 2016	\$ 41,695	\$ 1,855	\$ 43,550
Amortization	16,502	475	16,977
Effect of movement in exchange rates	2,389	-	2,389
Balance, July 31, 2017	60,586	2,330	62,916
Amortization	16,730	190	16,920
Effect of movement in exchange rates	-	-	-
Balance, January 31, 2018	\$ 77,316	\$ 2,520	\$ 79,836
NET BOOK VALUE			
Balance, July 31, 2016	\$ 53,214	\$ 2,374	\$ 55,588
Balance, July 31, 2017	\$ 41,919	\$ 1,899	\$ 43,818
Balance, January 31, 2018	\$ 54,437	\$ 1,709	\$ 56,146

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended January 31, 2018 and 2017

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	-	-	-	88,404	88,404
Effect of movements in exchange rates	1,979	499	8,013	3,377	13,868
Balance, January 31, 2018	\$ 129,149	\$ 32,587	\$ 522,714	\$ 308,706	\$ 993,156
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	3,645	552	12,030	832	17,059
Balance, July 31, 2017	78,219	11,842	237,850	14,834	342,745
Amortization	10,521	1,593	45,383	17,191	74,688
Effect of movements in exchange rates	1,459	220	4,711	658	7,048
Balance, January 31, 2018	\$ 90,199	\$ 13,655	\$ 287,944	\$ 32,683	\$ 424,481
NET BOOK VALUE					
Balance, July 31, 2016	\$ 67,151	\$ 22,453	\$ 367,471	\$ 56,308	\$ 513,383
Balance, July 31, 2017	\$ 48,951	\$ 20,246	\$ 276,851	\$ 202,091	\$ 548,139
Balance, January 31, 2018	\$ 38,950	\$ 18,932	\$ 234,770	\$ 276,023	\$ 568,675

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 Six Months Ended January 31, 2018 and 2017

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.

During the six months ended January 31, 2018, pursuant to the technology asset purchase agreement with iGov, the Company issued 261,800 shares at a market price of CAD\$0.16 per share, based on gross qualifying product licenses sold before January 1, 2017, and paid \$16,236 of 10% royalty on the gross license revenues. The Company has recognized \$18,445 in losses from the settlement of this agreement.

5 (b) Customizable application

Customizable application consists of internally developed software for which the Company capitalized \$88,404 during the six months ended January 31, 2018 (July 31, 2017 – \$148,145).

6. SOFTWARE LICENSE INVENTORY

COST AND NET BOOK VALUE	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		4,738
Balance, January 31, 2018	\$	309,075

The Company 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 software licenses have an indefinite useful life and therefore are not amortized. During the six months ended January 31, 2018, the current subscription and support contract was renewed for a year. The expense related to the maintenance contract recorded as Software Licenses in the Statement of Loss.

HEALTHSPACE DATA SYSTEMS LTD.

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Unaudited (Expressed in US dollars)

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 as at January 31, 2018:

	January 31, 2018
Wisconsin Department of Health	\$ 106,813
Central Utah Health Department	35,181
Other	207,933
Total	\$ 349,927

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 January 31, 2018, the net carrying amount of leased computer hardware included in property and equipment is \$10,177 (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	\$ 9,189
Less: Imputed interest	(1,022)
Less: Current portion	(8,167)
Long-term portion	\$ -

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended January 31, 2018 and 2017

Unaudited (Expressed in US dollars)

10. CONVERTIBLE DEBENTURES

	January 31, 2018	July 31, 2017
Convertible debentures – <i>Note 10(a)</i>	\$ -	\$ 30,884
Secured convertible debenture – <i>Note 10(b)</i>	440,088	1,195,092
Total convertible debentures	\$ 440,088	\$ 1,225,617
Less: Current portion	440,088	30,525
Long term portion	\$ -	\$ 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. In January 2018 the convertible debenture was paid out.

10 (b)

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

- At any time before September 29, 2018, the date the debenture is to be repaid, 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.

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Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended January 31, 2018 and 2017

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.

During the six months ended January 31, 2018, CAD\$955,000 of the convertible debenture was exercised and converted to common shares of the Company. As of January 31, 2018, the carrying value of convertible debentures is \$440,088 (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 January 31, 2018, the principal balance on the convertible debenture is CAD\$545,000 (July 31, 2017 - CAD\$1,500,000).

11. SHARE CAPITAL

(a) Common Shares – Authorized

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

(b) Issuances

Financings during the six months ended January 31, 2018

- During the six months ended January 31, 2018, 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 \$41,691.
- During the six months ended January 31, 2018, the Company closed the first and second tranches of a non-brokered private placement of 17,000,000 units at a price of \$0.05 per unit for gross proceeds of CAD\$850,000. 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\$88,651 in finder's fees and granted 469,000 finders' warrants exercisable at a price of \$0.05 for a period of two years.
- During the six months ended January 31, 2018, the Company closed a private placement and issued 10,600,000 shares at a price of \$0.10 per share for gross proceeds of CAD\$1,060,000.
- During the six months ended January 31, 2018, the Company issued 261,800 shares pursuant to the technology asset purchase agreement (Note 5a) at a market price of CAD\$0.16 per share.
- During the six months ended January 31, 2018, 9,550,000 shares were issued on partial exercise of the convertible debenture (Note 10(b)) at a price of \$0.10.
- During the six months ended January 31, 2018, 1,150,000 shares were issued on exercise of share options at a price of \$0.08.

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended January 31, 2018 and 2017

Unaudited (Expressed in US dollars)

11. SHARE CAPITAL (continued)

(a) Issuances (continued)

- During the six months ended January 31, 2018 112,500 shares were issued on exercise of the restricted shares units.

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 CAD \$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 CAD \$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 CAD \$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 CAD \$0.075 for a period of twelve months. As part of this financing, the Company paid cash share issue costs of CAD \$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 CAD \$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 CAD\$0.06 per share, for the settlement of CAD\$69,400 in debt to three creditors for services provided to the Company.

(b) Share Options

During the six months ended January 31, 2018 the Company granted 2,375,000 share options exercisable at CAD\$0.15 per share for a five-year term. The fair value of CAD\$343,608 was recorded as share-based payments. The fair value of the share options was calculated using the Black-Scholes option pricing model with the following assumptions:

- Date of grant – December 15, 2017;
- Risk free interest rate – 1.63%
- Expected volatility – 146.76%
- Expected life – 5 years

Due to the limited historical published share prices available for the Company, historical volatility of similar entities was considered in determining the expected volatility.

During the year ended July 31, 2017 the following share 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.

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11. SHARE CAPITAL (continued)

(b) Share Options (continued)

- 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 January 31, 2018:

Options outstanding	Options exercisable	Exercise price, CAD\$	Expiry date
420,000	335,625	\$ 0.20	February 28, 2021
1,700,000	1,651,910	\$ 0.08	November 30, 2020
2,640,000	2,640,000	\$ 0.08	November 24, 2021
75,000	56,250	\$ 0.08	March 8, 2022
75,000	75,000	\$ 0.08	March 17, 2022
2,375,000	-	\$ 0.08	December 15, 2022
7,285,000	4,758,785		

The following is a continuity of the share options as at January 31, 2018:

	Six months ended January 31, 2018		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	2,375,000	\$ 0.15	4,225,000	\$ 0.06
Exercised	(1,150,000)	\$ 0.08	-	\$ -
Cancelled	(285,000)	\$ 0.09	(825,000)	\$ 0.20
Balance, end of period	7,285,000	\$ 0.14	6,345,000	\$ 0.12
Exercisable, end of period	4,758,785	\$ 0.13	4,757,014	\$ 0.13

The Company recorded \$94,875 in share-based payments related to share options vested during the six months ended January 31, 2018 (2017 - \$88,054).

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11. SHARE CAPITAL (continued)

(c) Restricted Share Units Granted

The following is a continuity of the restricted share units (RSU) as at January 31, 2018:

	Number of RSU outstanding	Number of RSU vested
Balance, July 31, 2016	-	-
Granted	1,200,000	-
Balance, July 31, 2017	1,200,000	300,000
Cancelled	(300,000)	-
Granted	1,100,000	-
Exercised	(112,500)	-
Balance, January 31, 2018	1,887,500	625,000

During the year ended July 31, 2017, the Company granted 1,200,000 restricted share 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.

During the six months ended January 31, 2018, the Company granted 1,100,000 restricted share units vesting $\frac{1}{4}$ every first four quarters from the date of grant.

(d) Share Purchase Warrants

During the six months ended January 31, 2018, as part of the private placement the Company issued 17,000,000 transferable share purchase warrant. Each 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 issued 469,000 finders' warrants exercisable at a price of \$0.05 for a period of two years. The fair value of the warrants of \$26,941 was calculated using the Black-Scholes option pricing model with the following assumptions:

- Date of grant – November 15, 2017;
- Risk free interest rate – 1.43%
- Expected volatility – 146.54%
- Expected life – 2 years

Due to the limited historical published share prices available for the Company, historical volatility of similar entities was considered in determining the expected volatility.

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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 CAD\$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 January 31, 2018:

	Six months ended January 31, 2018		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	17,469,000	\$ 0.05	19,701,260	\$ 0.08
Exercised	-	\$ -	(1,919,500)	\$ 0.08
Expired	(18,847,860)	\$ 0.08	-	-
Balance, end of period	17,469,000	\$ 0.05	18,847,860	\$ 0.08
Exercisable, end of period	17,469,000	\$ 0.05	18,847,860	\$ 0.08

The weighted average remaining life of the warrants outstanding as at January 31, 2018 is 1.78 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 (CAD\$143,963).

12. RELATED PARTY TRANSACTIONS

Transactions with Directors and Management

As at January 31, 2018, accounts payable and accrued liabilities included \$nil (July 31, 2017 - \$39,590) owing to directors, officers and companies controlled by directors and officers.

For the six months ended January 31, 2018, \$70,777 (2016 - \$262,664) in consulting and accounting fees were paid to a company controlled by an officer; to a company of which an officer of the Company is an employee and to a former officer. 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 \$121,229 for the six months ended January 31, 2018 (2017 - \$39,954).

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended January 31, 2018 and 2017

Unaudited (Expressed in US dollars)

12. RELATED PARTY TRANSACTIONS (continued)

During the six months ended January 31, 2018 the Company recorded \$45,458 in share-based payments for the share options granted to directors and officers of the Company.

Transactions with Lenders

For the six months ended January 31, 2018 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, CAD\$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 January 31, 2018, 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 January 31, 2018 are \$9,189.

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 six months ended January 31, 2018 and year ended July 31, 2017. Therefore, the Company's diluted loss per share is equal to its basic loss per share.

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended January 31, 2018 and 2017

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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 six months ended			
January 31, 2018			
External subscription revenues	\$ 257,736	\$ 698,991	\$ 956,727
External contract and implementation revenues	\$ 5,129	\$ 81,991	\$ 87,120
As at January 31, 2018			
Property and equipment	\$ 51,794	\$ 4,352	\$ 56,146
Intangible asset	\$ 568,675	\$ -	\$ 568,675
Software license inventory	\$ 309,075	\$ -	\$ 309,075
Goodwill	\$ 1,956,156	\$ -	\$ 1,956,156
Total assets	\$ 3,575,976	\$ 314,427	\$ 3,890,403
Total liabilities	\$(1,150,502)	\$ (333,764)	\$(1,484,266)

For the six months ended

January 31, 2017

External subscription revenues	\$ 109,752	\$ 415,219	\$ 524,971
External contract and implementation revenues	\$ -	\$ 14,000	\$ 14,000

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
Total assets	\$ 2,947,768	\$ 249,661	\$ 3,197,429
Total liabilities	\$(2,581,650)	\$ (370,334)	\$(2,951,984)

For the six months ended January 31, 2018, revenues from two major customers in the United States of America represented approximately \$361,876 (2017 - \$319,958) of the Company's total revenues (Note 17).

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For the Six Months Ended January 31, 2018 and 2017

Unaudited (Expressed in US dollars)

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.

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 January 31, 2018 is \$256,653 (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.

HEALTHSPACE DATA SYSTEMS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended January 31, 2018 and 2017

Unaudited (Expressed in US dollars)

17. MANAGEMENT OF FINANCIAL RISK (continued)

Credit Risk (continued)

As at January 31, 2018, \$nil of customer receivables are past due (July 31, 2017 - \$91,758). As at January 31, 2018, the Company's two largest customers accounted for \$153,764 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 10.

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 January 31, 2018, 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 are: Years ended July 31:

2018 - \$63,656

2019 - \$61,490