



Management Discussion and Analysis (MD&A)  
of Financial Condition and Results of Operations

For the Year Ended December 31, 2012 and 2011

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## **1.0 INTRODUCTION**

The following Management Discussion and Analysis of QHR Technologies Inc. (“QHR” or “the Company”) as of April 12, 2013 should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012, and related notes included therein. These audited consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. All amounts are expressed in Canadian Dollars. Management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including this MD&A, and used internally by us, is complete and reliable. The MD&A and audited consolidated financial statements were reviewed by the Company’s Audit Committee and approved by the Company’s Board of Directors.

Additional information relating to the Company including the Company’s most recent Annual Financial Statements is available on our website at <http://www.QHRtechnologies.com> and through the SEDAR website at <http://www.sedar.com>.

### Forward Looking Statements

The following discussion and analysis of the financial conditions and results of operations contains forward-looking statements concerning anticipated developments in the Company’s operations in future years, the adequacy of the Company’s financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as “expects,” “anticipates,” “believes,” “intends,” “estimates,” “predicts,” “potential,” “targeted,” “plans,” “possible” and similar expressions, or statements that events, conditions or results “will,” “may,” “could” or “should” occur or be achieved. These forward-looking statements include, without limitation, statements about the Company’s market opportunities, strategies, competition, expected activities and expenditures as the Company pursues its business plan, the adequacy of the Company’s available cash resources and other statements about future events or results. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, such as business and economic risks and uncertainties. The Company’s forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Consequently, all forward-looking statements made in this discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. Some of these risks, uncertainties and other factors are described herein under the heading “Risks and Uncertainties”. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

### Caution Regarding Forward Looking Statements

Many factors could cause the actual results of the Company to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements, including, without limitation, each of the following factors, and those factors which are further discussed in the Company’s 2011 Annual Information Form (“AIF”), a copy of which is available on SEDAR at <http://www.sedar.com>.

The Company’s revenues may fluctuate from quarter to quarter and year to year depending upon sales cycles, customer demand and the timing of customer purchase decisions;

The Company’s gross margins may fluctuate from year to year depending upon a variety of factors including product mix, related cost of sales, competitive pricing pressures and the level of sales generated in the quarter;

The Company faces intense competition in markets where there are typically several different competing technologies and rapid technological changes. The Company faces the risk of emergence of new technologies that may be either competitive to those of the Company or that change the requirements of the Company’s customers for solutions such as those offered by the Company.

## 2.0 BUSINESS OVERVIEW

### 2.1 Overview of the Business

QHR is a leading provider of software solutions targeted for the healthcare industry in Canada, federal and provincial funded entities which provide healthcare, wellness, social services and public safety. QHR's solutions are segmented into three operating divisions to take advantage of distinct market opportunities, namely *Electronic Medical Records* ("EMR") software, marketed under the Accuro® EMR brand, *Enterprise Management Solutions* ("EMS") applications, marketed under the Quadrant™ brand and *Revenue Cycle Management* ("RCM") marketed through the i-Plexus and Softcare Solutions product lines.

The EMR software, is marketed primarily under the Accuro® EMR brand. This comprehensive suite of medical software modules is designed to improve the quality of the operational work environment of family physicians, medical specialists and surgeons. Accuro® delivers productivity gains and cost savings through computerized medical records and conforms to the stringent requirements of EMR protocols that have been established by Federal and Provincial governments. The EMR division also supports and maintains legacy-based EMR systems from acquired companies. The Company provides customers on these legacy systems with a cost-effective upgrade path to the newer and more advanced Accuro® system. To service market demands, the EMR division also provides integrated data hosting services to its EMR customers who prefer to access the software solution through a hosted Application Service Provider ("ASP") environment. Some provincial programs give preference to, and/or mandate a hosted environment to meet the provincial EMR subsidy program requirements for physicians. Accordingly, the Company has found it necessary to build out its own data center infrastructure in conjunction with Fourth party co-location data centers to accommodate the client needs on both their software application and technical infrastructure. Cloud computing is a growing business and it is necessary for the Company to make an upfront investment to complete our offering of managed services.

The EMS applications, marketed under the Quadrant™ brand are comprised of two product offerings, namely *Workforce Management Software* and *Financial Management Software*. The Workforce Management Software consists of integrated applications including payroll, staff scheduling and human resources management solutions for complex healthcare, social service and public safety environments. The Financial Management Software provides customized financial software built on Microsoft's Dynamics GP (formerly Great Plains) platform. Together, these products enable QHR to offer comprehensive enterprise management software solutions to the healthcare and social services market.

The RCM division provides software transaction processing services to physicians, hospitals, health plans, insurance brokers and state governments to exchange information for health plan enrolment, health insurance eligibility, health insurance claims, claim payments and healthcare provider collaboration of supporting patient referral and industry compliance/reporting documentation.

### 2.2 Company Products and Services

#### *EMR division*

The EMR division operates in a rapidly changing marketplace, with increased adoption of EMR systems in Canadian physician offices promoted and funded by the Federal and Provincial governments. The Federal Government's objective, through Canada Health Infoway Inc., plans to have Electronic Health Records in place for most Canadians by 2016. The division's flagship product, Accuro® EMR, is developed using the latest technology and offers industry-leading functionality and workflow which conforms to federal and provincial standards. The product is built on a flexible platform which allows ongoing product development to respond to the evolving requirements of the EMR marketplace. The division also provides support and maintenance of legacy EMR products and practice management systems from acquired companies for physicians who have not yet upgraded to Accuro®.

The Company's strategy has been to selectively acquire legacy-based EMR and practice management systems, which adds to the Company's recurring revenue and increases its customer base. Customers benefit as the Company's support structure and resources are more substantial than the acquired software companies had as standalone businesses. Over time, the Company's strategy is to selectively implement unique functionality from the acquired systems into the Accuro® product, and to develop data conversion tools to allow customers to upgrade to the Accuro® system without losing their historic patient data. This provides customers with an upgrade path to newer, cost effective technology and helps ensure they will remain on our systems over the long term.

Currently there are approximately 72,000 physicians practicing in Canada of which 51% are specialists and 49% are general practitioners. Of this total market, about 40% of all physicians in Canada currently utilize an EMR product provided by approximately 30 vendors. The Company now has over 9,000 physician clients in six provinces making the Company one of the largest EMR vendors in Canada.

The Company has succeeded in establishing a strong market position in B.C., Alberta, Saskatchewan, Manitoba and Ontario. In Ontario, (Canada's largest EMR market), the Company now has approximately 20% of Ontario's 24,000 physicians as clients.

During 2012, OntarioMD (the agency that distributes funding for Physicians in Ontario) evaluated 21 EMR products and the respective EMR vendors for compliance with Specification 4.1 which sets a new standard for vendors' products to be funding eligible. This technical standard may be a barrier to entry for new competitors entering the market and may eliminate current competitors from participating in future funding programs.

As at December 31, 2012, the Company had been approved as one of 12 vendors that have met all the requirements to be Specification 4.2 certified and funding eligible.

Overall, the Company's strategy for this division is to:

1. Gain market share through both organic growth and acquisitions
2. Leverage its national presence to maximize revenue
3. Continue to grow as the leading national provider to EMR clients

Additionally, the Company has enhanced its competitive position through the formation of its hosting operations. Hosting simplifies the management of enterprise applications through a fully configurable set of application hosting services and customer support. With state-of-the-art capabilities in hosting small to large scale enterprise application deployments, specifically focused on the Electronic Medical Record and Enterprise Management Solution markets, clients increase their ROI by reducing the amount of up-front cost required on new enterprise software purchases, while helping to improve deployment timelines.

#### *EMS division*

The EMS division provides software to organizations in the healthcare and social services sectors, targeting medium to large organizations. This is considered to be a growing market based on forecast demographic influences, including in increasingly aging population.

Quadrant™ products are differentiated from competitors' products in ways that are meaningful to Canadian healthcare and public safety industry customers. The Workforce Management Software has unique capabilities to meet the employee scheduling, HR and payroll needs of complex work environments and the Financial Management Software is customized to the Canadian healthcare market. The Company is also recognized for its outstanding product support to customers.

The Company's strategy for this division is to:

- Cross-sell Workforce Management Software to Financial Management Software customers, and vice-versa, and expand sales within the entire customer base as the growth of these customers requires further application of the Company's products; and
- Develop best of breed, stand-alone modules of its current products that can interface with other companies' products, thus broadening market reach.

### *RCM division*

The RCM division is an electronic data interchange (“EDI”) provider which delivers best in class software solutions and transaction processing services including clearing house capabilities that encourage interoperability to assist Health Care Providers, payers and intermediaries capture and exchange information. Clients include physicians, hospitals, health plans, insurance brokers and state governments. The EDI software supports processes such as Health Plan enrolment, Health Insurance Eligibility, Health Insurance Claims, Claim Payments and Provider to Provider Collaboration of supporting referral and compliance documentation.

The Company currently has approximately 150 enterprise customers and approximately 5,000 US Medical Physician and Billing Service Customers and is continually seeking to increase the number of health care clients it serves with innovative technology that delivers high business value. The Company is in a unique position to capitalize on the \$983 billion US Healthcare industry reform movement by applying its business and technical expertise, advanced software technology, and subscription based pricing model through implementing government mandated Health IT standards for information exchange in the “HealthCare Business Chain”.

The Company’s strategy for this division is to:

- Leverage QHR’s marketing abilities and initiatives to accelerate the addition of Billing Service Customers (known as Revenue Cycle Management) by targeting specific doctor specialties
- Target EDI Markets through partnership channels who have relationships with Third Party Administrators (4,000 in US), Insurance Brokers/Agents (38,500 in US) and Healthcare IT Vendors (over 1,000 in US)

## 2.3 Business Model

### *Recurring Revenue*

The Company’s business model is to provide technologically advanced business software solutions and build long-term relationships with customers. The revenue model is based upon providing professional services to customers to implement those business solutions and thereafter the Company enjoys ongoing recurring revenues from support and maintenance contracts as well as licensing fees as long as customers continue to use the Company’s products. Our run rate going forward for recurring revenues has reached approximately \$22 million on an annualized basis.

### *EMR division*

Accuro® EMR systems are sold based on a monthly license and services agreement with monthly recurring revenues dependent on the number of physicians and other health professionals using the software at the customer site. The monthly fee is a blended payment for the use of the software, on-going enhancements and technical support. Revenue is recognized on a monthly basis. Revenue from fees to cover the cost of training and implementation is recognized when the services are provided and completed. Customers continue paying the monthly license and service fee for as long as they use the software. Once installed, customers are reluctant to change systems due to the quality of the Accuro® system, plus the costs associated with the investment in staff training and challenges associated with converting historic patient data to other systems.

The Company’s reputation for strong customer service has provided the EMR division with a customer retention rate exceeding 95% once switching to the Company’s core Accuro® EMR product. The division’s sales and marketing efforts are focused on selling Accuro® to customers who are on a competitor’s product. Existing customers of acquired EMR and patient management systems, such as Clinicare and Healthscreen, are charged recurring monthly or annual fees for software maintenance and support. From time to time annual maintenance and support payments are paid in advance and are recorded as deferred revenue on the balance sheet, until earned.

To enhance the EMR solution to the customer, the Company provides data hosting, data storage services and application hosting, technical support, off-site data storage and business continuation services. Customers are charged an initial fee for implementation and set-up followed by a monthly recurring subscription fee for maintenance and support of the hosting solution. In addition, the EMR division may resell hardware in conjunction with the software implementation to facilitate optimal system performance. Revenue from these services and the associated hardware sales is recognized as they are delivered.

### *EMS division*

Quadrant™ contracts are typically in the range of \$100,000 to \$1,000,000 and consist of three elements, namely an upfront purchase of software licenses, professional services fees to implement the software at a client's site over a 3 to 12 month year and annual recurring support and maintenance fees.

Once installed, customers continue using the Company's software for many years because of the high cost of changing vendors. This, added to the Company's reputation for strong customer service, has provided the EMS division with a customer retention and annual renewal rate exceeding 95%.

Revenue from software licensing is recognized after completion of the initial warranty year. Professional fees to implement the software are recognized as services are rendered and annual maintenance and support revenue is paid in advance and recognized on a straight-line basis throughout the year. Annual maintenance and support payments received in advance are recorded as deferred revenue on the balance sheet, until earned.

### *RCM division*

The Company's revenues in Canada are derived from software sales and licenses and other supporting fees, such as consulting, training and installation. The Company also provides maintenance and other recurring services, including customer support and software updates which are renewable at the option of the customer.

The Company's revenues in the US subsidiary are derived from fees collected for processing claims, determining eligibility, setting up records, and producing patient statements. The Company recognizes revenues when the services are provided as long as a contract or similar arrangement is in place, the amounts are readily determinable, and collection is reasonably assured.

The Company recognizes revenues from the development and sale of its software and licenses as work related to the development is completed or when legal title transfers if development work is insignificant, which is generally when the product is shipped or, in the case of certain agreements, when the products are delivered to certain customers. The Company sells some of its products on consignment to resellers and recognizes revenue for these consignment transactions only when the end-user sale has occurred.

The Company sells license and maintenance contracts that include the right to customer support and unspecified updates of software licenses on a when-and-if-available basis. Sales of updates and maintenance contracts are considered post-contract support, and the fees are deferred and recognized as revenue prorated over the term of the maintenance arrangement, which is generally 12 months. The recognition of any deferred revenue is not contingent upon any specific delivery of product since updates are only provided when-and-if-available.

For software arrangements where the Company is obligated to perform professional services, such as installation, training and consulting, the Company does not consider delivery to have occurred until no significant obligations remain. Generally, this would occur when substantially all service work has been completed in accordance with the terms and conditions of the agreement with the customer.

## **3.0 ACQUISITIONS**

### Open EC Solutions Inc.

On October 24, 2012, QHR Technologies Ltd. (the "Purchaser"), concluded the acquisition of the software solutions and transaction processing services of Open EC Solutions Inc., ("Open EC") and its subsidiaries.

The acquisition of OpenEC was strategically important to penetrate the US market and leverage the massive healthcare spending in the US. Products are delivered through a Software as a Service ("SaaS") model and through leveraged channel sales partners that provides a highly scalable, rapid deployment business model. The acquisition will allow the future deployment of a modified US EMR program to integrate with US operations healthcare business channels.

The identified assets, liabilities and purchase price below are a result of management's best estimates and assumptions after taking into account all relevant information available. The Company conducted studies and analysis of the acquired assets and liabilities to arrive at the final purchase price allocation below.

The fair value of the identifiable assets and liabilities of Open EC as at October 24, 2012 are as follows:

	Fair value recognized on acquisition
<b>Assets</b>	
Cash	\$ 61,265
Accounts receivable	300,446
Prepaid expenses	19,853
Capital assets, net	54,710
Intangible assets – customer relationships	196,885
Intangible assets – acquired technology	1,910,739
Intangible assets – channel partner relationships	579,130
<b>Total assets</b>	<b>3,123,028</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,205,452
Income taxes payable	2,351
Promissory note payable	400,000
Due to QHR Technologies Inc.	443,333
Deferred tax liability	227,554
Deferred revenue	64,000
<b>Total liabilities</b>	<b>2,342,690</b>
<b>Total identifiable net assets</b>	<b>\$ 780,338</b>
Goodwill on acquisition	1,658,813
<b>Purchase consideration transferred</b>	<b>\$ 2,439,151</b>
Fair value of QHR Technologies Inc. common shares	\$ 1,558,717
Cash	880,434
<b>Total purchase consideration</b>	<b>\$ 2,439,151</b>

In addition to amounts advanced before the acquisition date of \$443,333, the Company paid cash consideration of \$880,434 and 4,480,355 common shares in QHR Technologies Inc. with a value of approximately \$0.35 per common share (\$0.405 per share, discounted to Fair Market Value due to a 12 or 18 month hold period) for a total of \$1,558,717.

Due to lack of IFRS specific data prior to the acquisition of OpenEC, pro-forma profit or loss of the combined entity for any periods prior to acquisition cannot be determined reliably.

## 4.0 AMALGAMATION

On December 31, 2012 the Company concluded an amalgamation of *Open EC Technologies Inc.*, *Softcare EC Solutions Inc.*, *SCEC Holdings Ltd.* and *SCC Holdings Ltd.* into *QHR Software Inc.*

Prior to the amalgamation, the British Columbia corporations of *QHR Software Inc.*, *Open EC Technologies Inc.*, *Softcare EC Solutions Inc.*, *SCEC Holdings Ltd.* and *SCC Holdings Ltd.* were all wholly owned subsidiaries of QHR Technologies Inc., a British Columbia Corporation.



As a result of the amalgamation, the assets and liabilities of the Amalgamated Subsidiaries became assets and liabilities of QHR Software Inc. Subsection 87(2) of the Income Tax Act allows assets owned by the predecessor companies to be disposed of and acquired by the new amalgamated company at their tax cost. Therefore, there will not be any income tax liability resulting from the assets being acquired by QHR Software Inc. Additionally, any inter-company debt between the amalgamated subsidiaries and QHR Software Inc. were deemed to be settled at cost.

The amalgamation was completed on a tax deferred basis.

## 5.0 ANNUAL and Q4 FINANCIAL REVIEW

The following financial information contains certain non-IFRS measurements and terms. Accordingly, investors are cautioned not to place undue reliance on them and are also urged to read all IFRS accounting disclosures presented in the audited consolidated financial statements and accompanying notes for the period ended December 31, 2012.

### 5.1 Selected Consolidated Financial Information

Year ended December	2012	2011	2010
<b>REVENUE</b>	\$ 29,456,315	\$ 23,857,147	\$ 19,070,900
<b>OPERATING EXPENSES</b>			
Cost of goods sold	3,085,110	2,094,766	1,945,026
Service costs	13,693,497	9,868,666	7,983,610
Selling and administrative expenses	9,942,485	8,618,656	6,681,652
	26,721,092	20,582,088	16,610,288
<b>EBITDA<sup>(1)</sup></b>	2,735,223	3,275,059	2,460,612
Stock-based compensation	433,770	145,414	202,423
Amortization of property and equipment	574,337	509,413	592,150
Amortization of intangible assets	2,002,107	1,481,742	1,227,534
Interest expense	245,291	114,423	635,969
Loss on sale of property and equipment	-	-	46,924
Gain on investment	-	(107,409)	-
Loss on foreign exchange	6,779	7,660	5,656
	3,262,284	2,151,243	2,710,656
<b>Earnings (loss) before income taxes</b>	(527,061)	1,123,816	(250,044)
Income taxes			
Current	9,561	88,106	-
Deferred (recovery)	(972,001)	(434,242)	(1,257,000)
	(962,440)	(346,136)	(1,257,000)
<b>Net earnings</b>	\$ 435,379	\$ 1,469,952	\$ 1,006,956
<b>Other comprehensive loss</b>			
Exchange differences on translation of operations in currencies other than Canadian dollars	(3,739)	-	-
<b>Total comprehensive income for the year</b>	\$ 431,640	\$ 1,469,952	\$ 1,006,956

(1) EBITDA (earnings before interest, depreciation, taxes, amortization, stock-based compensation and foreign exchange) is a non-IFRS measure. Management believes that, in addition to net earnings, EBITDA is a useful complementary measure of pre-tax profitability and is commonly used by the financial and investment community for valuation purposes. However, EBITDA does not have a standardized meaning prescribed by IFRS. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. QHR's method of calculating EBITDA may differ from the methods used by other entities and, accordingly, our EBITDA may not be comparable to similarly titled measures used by other entities.

Year ended December	2012	2011	Change	Percent
Current assets	\$ 6,872,044	\$ 5,610,870	\$ 1,261,174	22%
Long-term assets	26,360,426	21,392,545	4,967,881	23%
Current liabilities	7,054,136	5,005,795	2,048,341	41%
Deferred revenue	4,446,935	3,889,087	557,848	14%
Long-term liabilities	1,798,576	522,539	1,276,037	>100%
Equity	19,932,823	17,585,994	2,346,829	13%

## 5.2 Fourth quarter highlights

The following are Q4 2012 highlights:

- The Company on a consolidated basis recorded a new quarterly revenue record of \$8,117,095 an increase of \$1,469,151 or 22% over the \$6,647,944 in revenue recorded in the fourth quarter of 2011.
- The Company on a consolidated basis recorded a revenue increase of \$1,107,222 or 16% over the third quarter revenue in 2012 of \$7,009,873.
- The EMR division recorded a new quarterly revenue record of \$5,008,614 an increase of \$1,164,015 or 30% over the \$3,844,599 in revenue recorded in the fourth quarter of 2011.
- The EMR division recorded an increase of \$649,149 or 15% over the \$4,359,465 in revenue recorded in the third quarter of 2012.
- The EMR division recorded a new quarterly EBITDA record of \$1,308,795 an increase of \$936,957 or 252% over the \$371,838 recorded in the fourth quarter of 2011.

## 5.3 Results of Operations

The Company has three operating segments that are components of the Company that engage in business activities from which it may earn revenues and incur expenses. These operating segments are monitored by the Company's chief operating decision makers and strategic decisions are made on the basis of the segment's operating results. The EMR division provides Electronic Medical Records applications, ASP hosting and data backup services and other technology products and services for use in physicians' medical offices. The Company allocates corporate costs proportionately to the staff count in each division. The EMS division specializes in Workforce Management Software and Financial Management Software targeted at medium to large healthcare, public safety and social services organizations. The RCM division provides software transaction processing services to physicians, hospitals, health plans, insurance brokers and state governments to exchange information for health plan enrolment, health insurance eligibility, health insurance claims, claim payments and healthcare provider collaboration of supporting patient referral and industry compliance/reporting documentation.

Three months ended December 31, 2012	EMR	EMS	RCM	Total
Revenues	\$ 5,008,614	\$ 2,701,027	\$ 407,454	\$ 8,117,095
Operating expenses	3,699,819	2,950,815	567,787	7,218,421
EBITDA <sup>(1)</sup>	1,308,795	(249,788)	(160,333)	898,674
Stock-based compensation	140,137	85,241	47,064	272,442
Amortization of property and equipment	30,549	102,617	2,189	135,355
Amortization of intangible assets	356,070	128,326	70,907	555,303
Interest expense	87,810	-	9,182	96,992
Loss on assets	135,577	-	-	135,577
Loss (gain) on foreign exchange	1,689	(9)	79	1,759
Earnings (loss) before income taxes	556,963	(565,963)	(289,754)	(298,754)
Income tax (recovery)	455,625	(233,147)	(912,964)	(690,486)
Net earnings (loss)	\$ 101,338	\$ (332,816)	\$ 623,210	\$ 391,732

Three months ended December 31, 2011	EMR	EMS	RCM	Total
Total revenues	\$ 3,844,599	\$ 2,803,345	\$ -	\$ 6,647,944
Operating expenses	3,472,761	2,614,108	-	6,086,869
EBITDA <sup>(1)</sup>	371,838	189,237	-	561,075
Stock-based compensation	34,954	26,923	-	61,877
Amortization of property and equipment	76,218	28,497	-	104,715
Amortization of intangible assets	421,135	121,745	-	542,880
Interest expense	24,003	16,219	-	40,222
Loss on foreign exchange	477	295	-	772
Loss before income taxes	(184,949)	(4,442)	-	(189,391)
Income tax (recovery)	(395,769)	(24,456)	-	(420,225)
Net earnings	\$ 210,820	\$ 20,014	\$ -	\$ 230,834

Year ended December 31, 2012	EMR	EMS	RCM	Total
Revenues	\$ 17,416,685	\$ 11,632,176	\$ 407,454	\$ 29,456,315
Operating expenses	15,396,496	10,756,809	567,787	26,721,092
EBITDA <sup>(1)</sup>	2,020,189	875,367	(160,333)	2,735,223
Stock-based compensation	235,320	151,386	47,064	433,770
Amortization of property and equipment	217,374	354,774	2,189	574,337
Amortization of intangible assets	1,502,562	428,638	70,907	2,002,107
Interest expense	92,936	143,173	9,182	245,291
Loss (gain) on foreign exchange	4,028	2,672	79	6,779
Earnings (loss) before income taxes	(32,031)	(205,276)	(289,754)	(527,061)
Income tax (recovery)	229,298	(278,734)	(913,004)	(962,440)
Net earnings (loss)	\$ (261,329)	\$ 73,458	\$ 623,250	\$ 435,379

Year ended December 31, 2011	EMR	EMS	RCM	Total
Revenues	\$ 11,615,069	\$ 12,242,078	\$ -	\$ 23,857,147
Operating expenses	11,112,948	9,469,140	-	20,582,088
EBITDA <sup>(1)</sup>	502,121	2,772,938	-	3,275,059
Stock-based compensation	74,743	70,671	-	145,414
Amortization of property and equipment	371,454	137,959	-	509,413
Amortization of intangible assets	1,045,103	436,639	-	1,481,742
Interest expense	74,514	39,909	-	114,423
Gain on investment	(107,409)	-	-	(107,409)
(Gain) loss on foreign exchange	(148)	7,808	-	7,660
Earnings (loss) before income taxes	(956,136)	2,079,952	-	1,123,816
Income tax	(493,772)	147,636	-	(346,136)
Net earnings (loss)	\$ (462,364)	\$ 1,932,316	\$ -	\$ 1,469,952

*Revenues*

The Company recorded a new record of \$8,117,095 in revenue for the three months ending December 31, 2012 compared to \$6,647,944 for the three months ending December 31, 2011 an increase of 22%.

The EMR division revenue for the fourth quarter was a new record of \$5,008,614 compared to \$3,844,599 for the same period last year, an increase of 30%. Approximately half of this increase is attributable to continued organic growth in recurring revenue and new clients and approximately half through the addition of revenue generated due to clients added by way of acquisitions who have upgraded to our Accuro® product.

The EMS division revenue for the fourth quarter was \$2,701,027 compared to \$2,803,345 for the same period last year, a decrease of 4%.

The RCM division revenue for the fourth quarter was \$407,454. This is the OpenEC acquisition that was completed on October 24, 2012.

*Operating Expenses*

Operating expenses including cost of goods for the three months ended December 31, 2012 were \$7,218,421 compared to \$6,086,869 for the same period in 2011, an increase of 19%. This increase in expenses is due to the increase in revenue overall as well as integration costs.

*Other Expenses*

Other expenses including stock-based compensation, amortization, interest and foreign exchange were \$1,197,428 for the three months ending December 31, 2012 compared to \$750,466 for the same year in 2011. The difference is mainly due to increased amortization relating to intangible assets from acquisitions and increased stock based compensation costs.

*Earnings*

EBITDA<sup>(1)</sup> for the three months ended December 31, 2012 was \$898,674 compared to \$561,075 for the same period in 2011, an increase of 60%. The net earnings for the three months ended December 31, 2012 was \$391,732 compared to net earnings of \$230,834 for the same period in 2011, an increase of \$160,898 or 70%. EBITDA for the three months ended December 31, 2012 compared to the three months ended September, 2012 improved by 103% and by 154% over Q2 of 2012.

Quarterly Financial Data	Three months ended			
	Mar 31	Jun 30	Sept 30	Dec 31
<b>2012</b>				
Revenue	\$ 7,393,244	\$ 6,936,101	\$ 7,009,873	\$ 8,117,095
EBITDA <sup>(1)</sup>	1,040,444	353,767	442,338	898,674
Comprehensive income (loss)	264,454	(104,598)	(116,212)	387,996
Net earnings per share – basic	0.01	0.00	0.00	0.00
Net earnings per share – diluted	0.01	0.00	0.00	0.00
Weighted average common shares outstanding				
Basic	42,910,621	42,910,621	42,910,621	43,743,037
Diluted	43,364,239	43,139,022	43,179,893	44,031,416
<b>2011</b>				
Revenue	\$ 6,481,901	\$ 5,230,505	\$ 5,496,797	\$ 6,647,944
EBITDA <sup>(1)</sup>	1,426,165	610,543	677,276	561,075
Comprehensive income	976,808	112,986	149,324	230,834
Net earnings per share – basic	0.02	0.00	0.00	0.01
Net earnings per share – diluted	0.02	0.00	0.00	0.01
Weighted average common shares outstanding				
Basic	42,903,510	42,790,621	42,809,914	42,813,470
Diluted	43,780,767	43,146,750	43,287,195	43,335,266
<b>2010</b>				
Revenue	\$ 4,661,946	\$ 5,092,462	\$ 4,645,807	\$ 4,670,685
EBITDA <sup>(1)</sup>	240,915	935,382	516,778	767,537
Comprehensive income (loss)	(334,733)	308,166	(91,853)	1,179,942
Net earnings (loss) per share – basic	(0.01)	0.01	0.00	0.04
Net earnings (loss) per share – diluted	(0.01)	0.01	0.00	0.04
Weighted average common shares outstanding				
Basic	28,235,953	29,886,965	30,259,774	30,109,936
Diluted	29,123,833	30,621,330	30,987,648	30,682,360

Quarterly results from the three divisions fluctuate from quarter to quarter due to seasonal influences on sales volumes. However, on a consolidated basis, 75% of the revenue (approximately \$5.5m quarterly and \$22.0m annually) is derived from recurring revenues. The EMR division's quarterly results have historically been less volatile as recurring revenues provide a consistent revenue stream. The timing of license sales within the EMS division can create significant fluctuations in the quarterly results as some large contracts represent a significant share of sales for a given quarter. The timing of these license sales and corresponding cost of goods is unpredictable. Historical data from the RCM division is not reflected in the above numbers and therefore quarter to quarter fluctuations cannot reasonably be determined as at December 31, 2012.

#### *Economic Outlook and Company Strategy*

Management believes that 2013 will continue to present challenges to most Canadian businesses. Notwithstanding these challenges, healthcare is a steady and growing market and recent new contracts already announced in 2013 indicate continued growth opportunities for the Company.

- Total Canadian healthcare spending is expected to reach approximately \$195 billion in 2012. The healthcare sector continues to grow based on demographic changes in Canada and represents approximately 11.7% of Canadian GDP;
- The Company's customers being health agencies, hospitals, long-term care facilities, social support agencies, public safety and physicians' offices are not usually impacted by the business cycle;
- The Company's products, such as accounting and payroll, are mission critical to the running of our customers' enterprises;
- Federal and Provincial Governments are accelerating investment in information technology infrastructure creating more demand for the Company's products.

Management remains focused on implementing a business model which will serve to (i) add a recurring revenue stream by offering a range of services, (ii) broaden the Company's portfolio of products and services, and (iii) diversify the base of customers.

QHR expects to achieve continued growth over the next year based on the Company's recent acquisitions, strong organic growth and potential expansion into new markets. The Company enjoys strong cash flow due to its recurring revenue model, and will continue to invest in product development as well as continually evaluate strategic acquisitions. The Company has in the past raised equity capital to support operational growth and partially fund acquisitions, and expects to continue to do so in the future provided that market conditions remain favorable.

#### 5.4 Liquidity and Financial Condition

	<b>December 31, 2012</b>	December 31, 2011
Cash on hand	\$ 1,592,896	\$ 2,043,637
Working capital <sup>(2)</sup>	(182,092)	605,075
Shareholders' equity	19,932,823	17,585,994

The Company ended the year with cash on hand of \$1,592,896 compared to \$2,043,637 for 2011. The Company had a negative working capital<sup>(2)</sup> of \$182,092 at December 31, 2012, a decrease of \$787,167 from December 31, 2011, due primarily to the liabilities acquired through the OpenEC purchase.

#### *Operating Activities*

For the year ended December 31, 2012, operating activities resulted in net cash inflows of \$1,511,064 compared to \$2,583,169 for the same period in 2011. The variance between the cash inflows is driven by a decrease in net earnings for the year and changes in its non-cash operating assets and liabilities which impacted the Company's operating cash activity and is also related to the Open EC acquisition.

(2) The Company uses working capital changes as a supplemental non-IFRS financial measure in its evaluation of liquidity. Management believes monitoring working capital items assists in assessing the efficiency of allocation of short term financial resources. Working Capital is calculated by subtracting current liabilities from current assets excluding deferred revenue.

### *Investing Activities*

For the year ended December 31, 2012, the Company made net investments of \$2,832,192 compared to \$6,677,327 in 2011. The reduction in investments was primarily related to decreased business acquisition costs over the previous year.

### *Financing Activities*

For the year ended December 31, 2012, the Company generated cash from financing activities to a total of \$874,126 compared to \$1,515,985 in 2011.

## 5.5 Capital Resources

Our capital resources as at December 31, 2012 were in cash and cash equivalents in the amount of \$1,592,896. The Company plans to continue funding cash requirements through operations. If required, the Company has credit facilities in place that can be drawn upon as follows:

### *Operating Line of Credit*

The Company has an available operating line of credit with the Royal Bank (the "Bank") of up to \$1.5 million subject to and limited to standard borrowing base calculations and margining against trade account receivable. The operating line of credit is payable upon demand by the Bank. The Company had \$975,000 outstanding on its operating line at December 31, 2012, (December 31, 2011 - \$Nil). The interest rate is at the Bank's prime rate plus 2.00% per annum. At December 31, 2012, the effective rate on this loan was 5.00% (December 31, 2011 - 5.00%).

### *Term Loans*

The company has a balance of \$577,815 remaining on its first term loan of \$1,950,000, dated December 22, 2011.

During the year, the Company secured a further \$2,000,000 non-revolving term loan from the Bank specifically for the Open EC acquisition dated October 24, 2012 repayable in 36 monthly installments of \$55,556 plus interest at prime plus 2% per annum. The loan is secured by a guarantee and postponement of claim in the amount of \$4,413,000 supported by a general security agreement constituting a first ranking security interest in all personal property of OpenEC. Furthermore, a guarantee and postponement of claim in the amount of \$4,413,000 supported by a general security agreement constituting a first ranking security interest in all personal property of i-Plexus Solutions Inc.

As at December 31, 2012 the Company has the following externally imposed capital requirements under its operating line of credit and non-revolving term loan agreements.

- a) EBITDA (less cash income taxes and unfunded capital expenditures) to Fixed Charges (total interest expense, scheduled principal payments in respect to funded debt and corporate distributions) - the ratio is calculated on a rolling 4 quarters basis for the fiscal quarter then ended and the immediately preceding 3 fiscal quarters, of not less than 1.35:1.
- b) Funded debt to EBITDA - calculated on a rolling 4 quarters basis for the fiscal quarter then ended and the immediately preceding 3 fiscal quarters, of not greater than 2.00:1.
- c) On the non-revolving term loan only, a mandatory repayment equaling 50% of QHR's free cash flow (defined as earnings before interest, taxes, depreciation and amortization excluding non-cash gains/losses, less taxes, unfunded capital assets and all principal payments) is payable within 120 days of the fiscal year end.
- d) EBITDA is defined as earnings before interest, taxes, depreciation and amortization and is a non-IFRS measure. Unfunded capital expenditures are defined as capital expenditures not financed by external sources. Funded debt includes the term loan and capital lease obligations. Fixed charges are comprised of total interest expense, scheduled principal payments in respect of funded debt, and corporate distributions. The calculated payment for the year ended December 31, 2012 is \$Nil (December 31, 2011 - \$312,185).

As at December 31, 2012 and April 12, 2013, the Company is in compliance with all of its bank covenants.

## 5.6 Contractual Obligations

The Company's known contractual obligations at December 31, 2012, are quantified in the following table:

<b>December 31, 2012</b>	Less than 1 year	1 to 3 years	Total
Capital lease obligations (including interest)	\$ 516,232	\$ 361,830	\$ 878,062
Operating office leases	525,842	682,647	1,208,489
Current and long-term debt (including interest)	1,335,429	1,302,930	2,638,359
<b>Total</b>	<b>\$ 2,377,503</b>	<b>\$ 2,347,407</b>	<b>\$ 4,724,910</b>

## 6.0 OFF BALANCE SHEET ARRANGEMENTS

As at December 31, 2012 and April 12, 2013, the Company did not have any off balance sheet arrangements.

## 7.0 RELATED PARTY TRANSACTIONS

For the year ended December 31, 2012 and 2011 the Company paid compensation to key management personnel and the amounts are recognized as an expense during the reporting year.

## 8.0 FINANCIAL INSTRUMENTS AND RISK EXPOSURES

### *Fair Value Measurement*

The Company's current financial assets include cash and receivables. The Company's financial liabilities include accounts payable and accrued liabilities, promissory notes payable, capital lease obligations and long-term debt.

The Company has classified its cash, and receivables as loans and receivables, measured at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, promissory notes payable, capital lease obligations and long term debt are classified as other financial liabilities, measured at amortized cost using the effective interest rate method.

The carrying value of the Company's financial assets and liabilities is considered to be a reasonable approximation of fair value due to their immediate or short term maturity, or their ability for liquidation at comparable amounts.

### *Credit Risk*

Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet its obligations under a contract. This risk primarily arises from the Company's receivables from customers.

The Company's exposure to credit risk is dependent upon the characteristics of each customer. Each customer is assessed for credit worthiness through direct monitoring of their financial well-being on a continual basis. In some cases, where customers fail to meet the Company's credit worthiness benchmark, the Company may choose to transact with the customer on a prepayment basis.

The Company does not have credit insurance or other financial instruments to mitigate its credit risk as management has determined that the exposure is minimal due to the composition of its customer base.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Pursuant to their respective terms, net accounts receivable was aged as follows:

Accounts receivable	December 31, 2012	December 31, 2011
Current	\$ 1,937,604	\$ 992,387
31-60 days	941,415	1,017,317
61-90 days	419,414	276,293
Greater than 90 days	1,047,589	666,180
Allowance for doubtful accounts	(170,792)	(101,639)
	\$ 4,175,230	\$ 2,850,538

Allowance for doubtful accounts	December 31, 2012	December 31, 2011
Opening	\$ (101,639)	\$ (127,072)
Allowance	(118,894)	(111,393)
Recovery	49,741	136,826
Total	\$ (170,792)	\$ (101,639)

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

As at December 31, 2012, the Company had cash of \$1,592,896, accounts receivable of \$4,175,230 and income tax receivable of \$96,818 for a total of \$5,864,944. The Company had short-term financial obligations from its operating loan of \$975,000, accounts payable and accrued liabilities of \$3,842,809 promissory note of \$483,495, current capital lease obligations of \$480,995 and current long-term debt of \$1,271,837 which total \$7,054,136. The liquidity and maturity timing of these assets may be adequate for the settlement of the Company's short-term (less than one year) financial obligations.

December 31, 2012	Less than 1 year	1 to 3 years	Total
Operating loan	\$ 975,000	\$ -	\$ 975,000
Accounts payable and accrued liabilities	3,842,809	-	3,842,809
Promissory note	483,495	-	483,495
Capital lease obligations (including interest)	516,232	361,830	878,062
Current and long-term debt (including interest)	1,335,429	1,302,930	2,638,359
Total	\$ 7,152,965	\$ 1,664,760	\$ 8,817,725

*Foreign currency risk*

Foreign currency risk is the risk that the future cash flows or fair value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. As at December 31, 2012, approximately 2% (December 31, 2011 - 2%) of revenue is transacted in US dollars and the Company is exposed to foreign exchange risk thereon. The impact of future rate fluctuations cannot be predicted with certainty; however, the Company's exposure to fluctuations in the United States dollar is small since the Company has minimal financial assets or liabilities denominated in currencies other than the Canadian dollar.

*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 policy is to minimize interest rate cash flow risk exposures on long-term financing. The Company is exposed to changes in market interest rates through bank borrowings at variable interest rates.



The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 1%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculates are based on a change in the average market interest rate for each year, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

Interest rate sensitivity	Profit and equity for the year	
	-1%	+1%
December 31, 2012	\$ 18,948	\$ (18,948)
December 31, 2011	\$ (83)	\$ 83

## 9.0 CRITICAL ACCOUNTING ESTIMATES

On January 1, 2011, with the adoption of IFRS, the Company prepared its consolidated financial statements in accordance with International Financial Reporting Standards, and made estimates and assumptions that affect its reported amounts of assets, liabilities, revenue and expenses, and the related disclosures of contingent liabilities. The Company based its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. Actual results may differ from these estimates.

Management has discussed the development and selection of the Company's critical accounting estimates with the Audit Committee of the Company's Board of Directors.

The following critical accounting policies reflect the Company's more significant estimates and judgments used in preparing its consolidated financial statements:

### *Business Combinations and Goodwill*

Business combinations that occurred prior to January 1, 2010 were not accounted for in accordance with IFRS 3, *Business Combinations* and IAS 27, *Consolidated and Separate Financial Statements* in accordance with the IFRS 1, *First-time Adoption of International Financial Reporting Standards* exemption.

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at the acquisition date at fair value. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the appropriate share of the acquirer's identifiable net assets. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations* are recognized at their fair values at the acquisition date. Acquisition costs incurred are expensed in the year in which they are incurred except for costs related to shares issued in conjunction with the business combination.

Goodwill is initially measured at the excess of the fair value of consideration transferred and amount of non-controlling interest in the acquiree over the acquisition fair value of the net identifiable assets acquired and liabilities assumed. If this amount is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the Consolidated Statement of Earnings and Comprehensive Income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

### *Share-based Compensation*

The Company grants stock options to buy common shares of the Company to directors, senior officers, certain employees and service providers pursuant to an incentive share option plan. The Board of Directors grants such options for years of up to 2-5 years, with vesting years determined at its sole discretion and at prices equal to the closing market price on the day the options were granted.

Under this method, the Company recognizes compensation expense for stock options awarded based on the fair value of the options at the grant date using the Black-Scholes option pricing model. The fair value of the options is amortized over the vesting year and is included in selling, general and administrative expense with a corresponding increase in equity. The amount recognized as an expense is adjusted to reflect the number of share options expected to eventually vest.

### *Allowance for Doubtful Accounts*

The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. Management provides for bad debts by reviewing all specific customer accounts and trends and sets aside a specific amount towards the allowance account based on this analysis. The amount reserved is based on the Company's historical default experience direct knowledge of customer credit worthiness, and payment trends. Customer aging is reviewed monthly by management to ensure consistency with best practices. At any time throughout the year, if the Company determines that the financial condition of any of its customers has deteriorated, an increase in the allowance may be made.

### *Intangible Assets*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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 year and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization year or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Consolidated Statement of Earnings and Comprehensive Income.

The assets with indefinite useful lives are not amortized, but are tested for impairment annually at 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. Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Consolidated Statement of Earnings and Comprehensive Income when the asset is derecognized.

The Company records amortization of intangible assets with finite lives on a straight-line basis at the following annual rates, which approximate the useful lives of the assets:

Assets	Year
Developed technology	3 - 5 years
Contract development	3 years
Customer relationships	1- 10 years
Acquired technology	3 - 7 years
Software	3 years

### *Impairment of Non-Financial Assets*

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.

The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the Consolidated Statement of Earnings and Comprehensive Income.

An impairment loss is reversed if there is an indication that an impairment loss recognized in prior years may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized previously. Such reversal is recognized in the Consolidated Statement of Earnings and Comprehensive Income. An impairment loss with respect to goodwill is never reversed.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill is tested for impairment annually 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 group of CGU's to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than its carrying amount an impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount. Impairment losses relating to goodwill are not reversed in future years.

Intangible assets with indefinite lives are tested for impairment annually either individually or at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

#### *Revenue Recognition*

##### EMR division

EMR systems are sold based on monthly and annual subscription agreements with recurring revenues dependant on the number of physicians and other health professionals using the software at the customer site. The monthly fee is a blended payment for the use of the software, on-going enhancements and technical support and is recognized as the service is delivered on a monthly basis. There are upfront fees to cover the cost of training and implementation and this revenue is recognized when the amount of revenue and expense can be measured reliably, and when the stage of completion of the service can be measured reliably.

The EMR division provides hosting services to customers, including application hosting, technical support, off-site data storage and business continuation services. Customers are charged an initial fee for implementation and set-up followed by a monthly recurring subscription fee for maintenance and support of the hosting solution. In addition, the division may resell hardware in conjunction with the software implementation to facilitate optimal system performance. Revenue from these services and the associated hardware is recognized as they are delivered.

The EMR division sales and marketing efforts are focused on selling Accuro® (the Company's flagship EMR product) to new and acquired customers. Existing customers of its other acquired EMR and patient management systems are charged recurring monthly or annual fees for software maintenance and support. From time to time annual maintenance and support payments are paid in advance and are recorded as deferred revenue on the balance sheet until they are recognized as revenue.

##### EMS division

Software license revenues are recognized after delivery and acceptance by clients in accordance with the terms of each contract. For multiple element arrangements, the contract value is allocated and recognized separately for each element. Professional fees to implement the software are recognized when the amount of revenue and cost can be measured reliably, and the stage of completion of the service can be measured reliably. Annual maintenance and support revenue is paid in advance and recognized on a straight-line basis throughout the year as this approximates the rate at which the service is delivered. Annual maintenance and support payments received in advance are recorded as deferred revenue on the balance sheet, until earned.

## RCM division

The Company's revenues in Canada are derived from software sales and licenses and other supporting fees, such as consulting, training and installation. The Company also provides maintenance and other recurring services, including customer support and software updates which are renewable at the option of the customer.

The Company's revenues in the US subsidiary are derived from fees collected for processing claims, determining eligibility, setting up records, and producing patient statements. The Company recognizes revenues when the services are provided as long as a contract or similar arrangement is in place, the amounts are readily determinable, and collection is reasonably assured.

The Company recognizes revenues from the development and sale of its software and licenses as work related to the development is completed or when legal title transfers if development work is insignificant, which is generally when the product is shipped or, in the case of certain agreements, when the products are delivered to certain customers. The Company sells some of its products on consignment to resellers and recognizes revenue for these consignment transactions only when the end-user sale has occurred.

The Company sells license and maintenance contracts that include the right to customer support and unspecified updates of software licenses on a when-and-if-available basis. Sales of updates and maintenance contracts are considered post-contract support, and the fees are deferred and recognized as revenue prorated over the term of the maintenance arrangement, which is generally 12 months. The recognition of any deferred revenue is not contingent upon any specific delivery of product since updates are only provided when-and-if-available.

For software arrangements where the Company is obligated to perform professional services, such as installation, training and consulting, the Company does not consider delivery to have occurred until no significant obligations remain. Generally, this would occur when substantially all service work has been completed in accordance with the terms and conditions of the agreement with the customer.

## *Income Taxes*

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the Consolidated Statement of Earnings and Comprehensive Income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred taxes are recorded using the statement of financial position liability method. Under the statement of financial position liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the year that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Company intends to settle its current tax assets and liabilities on a net basis.

The Company accounts for income tax credits in accordance with IAS 12, *Income Taxes* where credits are recorded as a credit to income tax expense on the statement of earnings and comprehensive income.

## **10.0 CONTINGENCIES**

In the normal course of business, from time to time, the Company may become involved in litigation. As at December 31, 2012, the Company is a defendant in a claim from November 2010 relating to a dispute arising from the Company's acquisition of Clinicare Corporation. Management believes the claim is without merit and has responded with a statement of defense and a counter claim for damages. The foundation of the dispute relates to a hold back that the Company made on disbursements of proceeds based on specific commercial attributes not being evident upon closing which were represented by the vendor. Accordingly, the Company is confident that there will be no material impact arising from this litigation. The Company has had no action on this claim during 2012.

On October 18, 2011 the Company and two of its recently hired employees, received a statement of claim filed in the Ontario Supreme Court of Justice, relating to the hiring of two employees that formerly were employed by an Ontario-based EMR Company ("the Claimant"). The Claimant has requested (amongst other things) that the court grant in excess of \$10,000,000 in damages against QHR and its two employees. QHR contends that there is no merit to the claims made by the Claimant. The Company will aggressively and vigorously defend itself in this action and believes that there will be no material impact arising from this litigation. The Company has had no action on this claim during 2012.

The Company has received a statement of claim for \$70,000 related to billings that the client did not receive payment from a provincial government due to late billings by the client to the provincial plan. The Company does not handle or monitor billings directly for Canadian clients and as such will defend itself vigorously as management believes the claim is without merit.

The Company has been named as a defendant to a claim against Open EC for fees in the amount of \$162,500 to a former advisor to Open EC. The Company has responded to the claim stating no fees are due. Management believes the claim is without merit and will defend itself vigorously against this claim.

## **11.0 BUSINESS RISKS AND UNCERTAINTIES**

There have been no significant changes or updates to our risk and risk management approach and discussion as outlined in Section 14 – "Business Risks and Uncertainties" of our annual 2011 MD&A and AIF found at [www.sedar.com](http://www.sedar.com).

Investors should carefully consider the risks and uncertainties described in its annual 2011 MD&A before making an investment decision. If any of the risks actually occur, our business, financial condition or operating results could be materially harmed. This could cause the trading price of our common shares to decline, and you may lose all or part of your investment.