



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

For the Three Months Ended March 31, 2014 and 2013

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## **1.0 INTRODUCTION**

The following Management Discussion and Analysis of QHR Corporation (“QHR” or “the Company”) as of May 14, 2014, should be read in conjunction with the unaudited consolidated financial statements for the three months ended March 31, 2013 and 2013, and related notes included therein. These unaudited 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 three months, 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.

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 and the United States. In Canada QHR targets federal and provincial funded entities, which provide primary healthcare. QHR's solutions are segmented into two operating divisions to take advantage of distinct market opportunities, namely *Electronic Medical Records* ("EMR") software, marketed under the Accuro® EMR brand and *Revenue Cycle Management* ("RCM") marketed through the i-Plexus and Softcare Solutions product lines that are sold primarily in the United States.

### **2.2 Company Products and Services**

#### *EMR division*

The EMR software, is marketed under the Accuro® EMR brand. This comprehensive medical software is designed to improve the quality and efficiency of the operational work environment for 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 products 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. In addition, some provincial programs give preference to, and/or mandate a hosted environment to meet the provincial EMR subsidy program requirements for physicians. To service this market demand, the EMR division provides integrated data hosting services to its EMR customers who are required / prefer to access the software solution through a hosted Application Service Provider ("ASP") environment. The Company runs data center operations in Eastern and Western Canada.

Accuro® EMR is a client server application deployed on a local server or as an ASP out of a QHR Data Center. Accuro® runs cross platform on both Mac and PC, and has a Mobile Device interface. This makes Accuro® one of the most powerful and flexible systems on the market and explains its popularity as the leading EMR in Canada. Product releases are done using agile methodology, providing customer's regular releases and new functionality every eight weeks through automated updates. QHR is committed to ongoing product evolution in support of its growing number of customers across Canada.

The Company has grown its market share both organically and through acquisition. From an acquisition stand point, the Company has selectively acquired legacy-based EMR and practice management systems, which add to the Company's recurring revenue and increases its customer base. The Company selectively implements unique functionality from acquired systems into its Accuro® product. In order to facilitate conversion by acquired customers to the Accuro® system, the company has developed data conversion tools which allow customers to upgrade to the Accuro® system without losing their historic patient data. This provides customers with an upgrade path to newer, more cost effective technology and helps ensure they will remain on our systems over the long term. This industry leading data conversion process also helps enable competitor takeaways (moving customers from competitor products to Accuro®).

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 has succeeded in establishing a strong market position in B.C., Alberta, Saskatchewan, Manitoba and Ontario and has recently made inroads in Nova Scotia. With over 9,000 physician clients, representing an approximate 17% share of the 52,000 physicians practicing in the six provinces in which it operates, QHR has become one of the largest EMR vendors in Canada. In Ontario, Canada's largest EMR market with 24,000 physicians, the Company's has an approximate 20% market share

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

1. Continue to gain market share through both organic growth and acquisitions
2. Leverage our existing customer base by up selling complementary products and services

#### *RCM division*

Softcare provides a suite of healthcare Interoperability solutions (EDI and Clearinghouse) and professional services that help clients navigate and simplify the complex transaction integration processes required for Health Plan Enrollment through to Payment Remittance with their trading partners. 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, and Claim Payments.

The Company's strategy for this division is to focus on four segments:

1. Providing EDI Health Claim Status and Eligibility services to Collection Revenue Cycle Management organizations assisting their staff to be more efficient with their client's collection process.
2. Providing EDI Health Claim Submission services to channel partners with EHR software & Ambulance software vendors for Clearinghouse services.
3. Providing EDI Enrollment and verification for Health plans and TPAs to meet compliance of HIPAA and regulatory requirements
4. Medical Billing Services for Ophthalmology Physicians

The RCM division markets Softcare services primarily in the United States.

## 2.3 Business Model

#### *EMR division*

The Company's business model is to provide technologically advanced Accuro® software and build long-term relationships with customers. The revenue model is based upon providing training and implementation services to customers to implement the Accuro® software. The Accuro® EMR software is sold on the basis of a monthly license and services agreement with monthly recurring revenues dependent upon 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® software, the costs associated with and investment in staff training and the challenges associated with converting historic patient data to other systems.

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.

The Company provides data hosting, data storage services and application hosting, 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. From time to time, the EMR division may resell hardware in conjunction with the software implementation to facilitate customer requirements. Revenue from these services and the associated hardware sales is recognized as they are delivered.

### *RCM division*

The Company's Canadian revenue is derived from software license sales 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 from Softcare 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 Softcare 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 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 considers delivery to have occurred when 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.

### *Recurring Revenue*

As of March 31, 2014, QHR's recurring annualized revenue run rate reached approximately \$21.0 million.

## **3.0 DISCONTINUED OPERATIONS**

On December 18, 2013, the Company sold the assets and liabilities of its EMS division for cash consideration of \$20,000,000 less working capital and customary adjustments. The division was not considered a discontinued operation or classified as held for sale at September 30, 2013, or December 31, 2013. The Company committed to a plan to sell the division following September 30, 2013. The Consolidated Statements of Earnings and Comprehensive Income have been re-presented for comparative purposes to show the discontinued operation separately from continuing operations.

## **4.0 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 unaudited consolidated financial statements and accompanying notes for the period ended March 31, 2014.

### **4.1 Non-IFRS Measures**

Management uses a non-IFRS measure of EBITDA as a supplemental measure to evaluate the performance of the Company. EBITDA is defined as earnings before income tax expense, financing costs, depreciation, amortization and stock-based compensation and foreign exchange.

Management believes that EBITDA provides an important measure of the Company's operating performance because it allows management, investors and others to evaluate and compare the Company's core operating results, including its return on capital and operating efficiencies, from period to period by removing the impact of its capital structure (interest expense), asset base (depreciation and amortization), tax consequences, other no-core operating items (acquisition costs) and other non-free cash items. EBITDA does not have any standardized meaning prescribed by

IFRS, other companies may calculate these non-IFRS measures differently, and therefore our EBITDA may not be comparable to a similar titled measure by other companies. Accordingly, investors are cautioned not to place undue reliance on it and are also urged to read all IFRS accounting disclosures presented in the audited consolidated financial statements and accompanying notes for the three months ended March 31, 2014.

#### 4.2 Selected Consolidated Financial Information

Three months ended March 31	2014	2013
<b>REVENUE</b>	\$ 6,767,528	\$ 5,852,925
<b>OPERATING EXPENSES</b>		
Cost of goods sold	654,755	631,878
Service costs	1,798,914	1,796,525
Research and development	763,947	697,062
Sales and marketing	1,476,692	874,637
General and administrative	1,192,342	948,385
Stock-based compensation expense	140,544	56,766
Amortization of property and equipment	204,667	136,754
Amortization of intangible assets	402,280	425,043
Interest expense	22,076	56,217
Foreign exchange	9,175	(3,074)
	6,665,392	5,620,193
<b>Earnings from continuing operations before taxes</b>	102,136	232,732
Provision for (recovery of) income taxes		
Current	(1,000)	
Deferred	6,703	68,998
	5,703	68,998
<b>Net earnings from continuing operations</b>	96,433	163,734
Net loss from discontinued operations (net of taxes)	-	(82,700)
<b>Net earnings</b>	96,433	81,034
Other comprehensive earnings (loss)		
Exchange differences on translation of operations in currencies other than Canadian dollars	89,384	33,391
<b>Total comprehensive earnings for the period</b>	\$ 185,817	\$ 114,425

#### 4.3 First quarter financial information

The following is Q1 2014, financial information for continuing operations:

- The Company on a consolidated basis recorded record revenue of \$6,767,528 an increase of \$914,603 or 16% over the \$5,852,925 in revenue recorded in the first quarter of 2013
- EBITDA on a consolidated basis was \$880,878 in Q1, compared to \$904,438 in Q1 of 2013. Although the EBITDA is slightly lower than Q1 2013 it should be noted that in Q1 2014 all corporate costs are allocated to the EMR and RCM divisions whereas in Q1 2013 a portion of the corporate costs were allocated to the EMS division.
- The EMR division recorded record revenue of \$6,074,808 an increase of \$824,691, or 16%, over the \$5,250,117 revenue recorded in the Q1 of 2013.
- Consolidated recurring revenue for Q1 of 2014 was 80% of total revenue, which compares to 80% for Q4 of 2013, and 72% for Q1 of 2013.

#### 4.4 Results of Operations

<b>Three months ended March 31, 2014</b>				
	EMR		RCM	Total
Revenues	\$	6,074,808	\$ 692,720	\$ 6,767,528
Cost of goods sold		474,791	179,964	654,755
Service costs		1,536,410	262,504	1,798,914
Research and development		531,261	232,686	763,947
Sales and Marketing		1,153,306	323,386	1,476,692
General and administrative		826,114	366,228	1,192,342
Stock-based compensation		113,560	26,984	140,544
Amortization of property and equipment		176,477	28,190	204,667
Amortization of intangible assets		324,563	77,717	402,280
Interest expense		16,539	5,537	22,076
Foreign exchange		10,070	(895)	9,175
Expenses		5,163,091	1,502,301	6,665,392
Earnings (loss) from continuing operations before tax		911,717	(809,581)	102,136
Income tax (recovery)		275,223	(269,520)	5,703
Net earnings (loss) from continuing operations	\$	636,494	\$ (540,061)	\$ 96,433
<b>Three months ended March 31, 2013</b>				
	EMS	EMR	RCM	Total
Revenues	\$ -	\$ 5,250,117	\$ 602,808	\$ 5,852,925
Cost of goods sold	-	486,846	145,032	631,878
Service costs	-	1,649,832	146,693	1,796,525
Research and development	-	457,698	239,364	697,062
Sales and Marketing	-	826,395	48,242	874,637
General and administrative	-	728,005	220,380	948,385
Stock-based compensation	-	47,325	9,441	56,766
Amortization of property and equipment	-	124,119	12,635	136,754
Amortization of intangible assets	-	325,137	99,906	425,043
Interest expense	-	38,893	17,324	56,217
Foreign exchange	-	2,162	(5,236)	(3,074)
	-	4,686,412	933,781	5,620,193
Earnings (loss) from continuing operations before tax	-	563,705	(330,973)	232,732
Income tax (recovery)	-	170,106	(101,108)	68,998
Net earnings (loss) from continuing operations	-	393,599	(229,865)	163,734
Net loss from discontinued operations	\$ (82,700)	\$ -	\$ -	\$ (82,700)

##### *Revenues*

The Company recorded revenue of \$6,767,528 for the three months ended March 31, 2014, compared to \$5,852,925 in 2013.

The EMR division revenue for the first quarter was a record \$6,074,808 compared to \$5,250,117 for the same period in 2013, an increase of 16%. This increase is attributable to continued organic growth in recurring revenue from the addition of new clients.

The RCM division revenue for the first quarter was \$692,720 compared to \$602,808 for the same period last year, an increase of 15%. The majority of this revenue increase comes from the U.S. based operation.

*Operating Expenses*

Total operating expenses for the three months ended March 31, 2014, was \$6,665,392 compared to \$5,620,193 for the same period in 2013, an increase of 18.6% which is due to the growth initiatives for the company.

EBITDA for the three months ended March 31, 2014, was \$880,878 compared to \$904,438 for the same period in 2013, a decrease of \$23,560. EBITDA margin as a percentage declined from 15.4% during Q1 2013, to 13.0% in Q1 2014. Although the EBITDA is slightly lower than Q1 2013 it should be noted that in Q1 2014 all corporate costs are allocated to the EMR and RCM divisions whereas in Q1 2013 a portion of the corporate costs were allocated to the EMS division.

Quarterly financial data from continuing operations	Mar 31	Three months ended		
		Jun 30	Sept 30	Dec 31
<b>2014</b>				
Revenue	\$ 6,767,528			
EBITDA	880,878			
Net earnings	96,433			
Comprehensive earnings	185,817			
Net earnings per share – basic	0.00			
Net earnings per share – diluted	0.00			
Weighted average common shares outstanding				
Basic	48,155,179			
Diluted	50,033,771			
<b>2013</b>				
Revenue	\$ 5,852,925	\$ 5,770,862	\$ 6,001,948	\$ 6,027,643
EBITDA	904,438	697,713	648,269	(476,579)
Net earnings (loss)	163,734	(8,332)	(186,984)	(1,643,125)
Comprehensive earnings (loss)	197,125	53,388	(231,322)	(1,612,267)
Net earnings per share – basic	0.00	0.00	0.00	(0.04)
Net earnings per share – diluted	0.00	0.00	0.00	(0.03)
Weighted average common shares outstanding				
Basic	47,466,087	47,770,976	47,946,132	47,788,388
Diluted	47,721,847	47,925,693	48,249,048	48,099,791
<b>2012</b>				
Revenue	\$ 3,840,441	\$ 4,168,089	\$ 4,163,307	\$ 5,293,918
EBITDA	387,589	(20,568)	108,164	1,022,181
Net earnings (loss)	(34,280)	(238,735)	(303,849)	691,977
Comprehensive earnings (loss)	(34,280)	(238,735)	(303,849)	688,238
Net earnings per share – basic	0.00	(0.01)	(0.01)	0.02
Net earnings per share – diluted	0.00	(0.01)	(0.01)	0.02
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

On a consolidated basis, 80% of the revenue (approximately \$5.25 million quarterly and \$21.0 million 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.

*Economic Outlook and Company Strategy*

Healthcare is a steady and growing marketplace. New client contracts secured during 2013 indicate continued growth opportunities for the Company.

- Total Canadian healthcare spending is expected to reach approximately \$195 billion in 2014. 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 physicians' offices, clinics, health agencies, hospitals and long-term care facilities are not usually impacted by the business cycle;
- The Company's products, such as billing, patient scheduling and electronic medical records, are mission critical to the running of our customers' enterprises;
- Federal and Provincial Governments continue to make investments in information technology infrastructure thereby creating more demand for the Company's products.

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

QHR expects to achieve continued growth over the next three months due to the Company's market position; strong organic growth and sales of complementary products to its existing customer base. 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 is well capitalized to support operational growth and fund acquisitions.

**4.5 Liquidity and Financial Condition**

	<b>March 31, 2014</b>	December 31, 2013
Cash	\$ 11,749,944	\$ 12,633,844
Working capital <sup>(1)</sup>	13,398,748	13,568,117
Shareholders' equity	27,593,888	26,975,427

(1) 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 (excluding deferred revenue) from current assets.

The Company ended the first quarter with cash on hand of \$11,749,944 compared to \$12,633,844 in 2013. The Company had positive working capital of \$13,938,748 at March 31, 2014, an increase of \$370,631 from December 31, 2013.

*Operating Activities*

For the three months ended March 31, 2014, operating activities resulted in net cash outflows of \$944,026 compared to net cash inflows of \$1,144,469 for the same period in 2013. Excluding the effect of operating activities from discontinued operations, the variance was largely the result of changes in working capital period over period.

*Investing Activities*

For the three months ended March 31, 2014, the Company had net cash outflows from investing activities of \$109,807 compared to \$137,044 for the same period in 2013.

*Financing Activities*

For the three months ended March 31, 2014, the Company had net financing inflows of \$148,129 compared to net outflows of \$620,914 for the same period in 2013. These increased net inflows are the result of the exercise of options in 2014, as well as reduced debt repayment requirements.

## 4.6 Capital Resources

Our capital resources as at March 31, 2014, were in cash and cash equivalents in the amount of \$11,749,944. 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 \$Nil outstanding on its operating line at March 31, 2014, (December 31, 2013 - \$Nil). The interest rate is at the Bank’s prime rate plus 2.00% per annum. At March 31, 2014, the effective rate on this loan was 5.00% (December 31, 2013 – 5.00%).

### *Term Loans*

The Company had secured two \$2,000,000 non-revolving term loans from the Bank specifically for acquisitions. The loans are secured by a guarantee and postponement of claims and supported by general security agreements.

During the last quarter of 2013, the company repaid both term loans in full, which were advanced on December 22, 2011, and October 24, 2012.

The security registrations with the bank have been left in place in the event the Company decides to secure a future non-revolving term loan for a specific purpose.

## 4.7 Contractual Obligations

The Company’s known contractual obligations at March 31, 2014, are quantified in the following table:

<b>March 31, 2014</b>	Less than 1 year	1 to 4 years	Total
Capital lease obligations (including interest)	\$ 555,968	\$ 453,392	\$ 1,009,360
Operating office leases	676,866	2,421,136	3,098,002
Current and long-term debt (including interest)	14,395	-	14,395
<b>Total</b>	<b>\$ 1,247,229</b>	<b>\$ 2,874,528</b>	<b>\$ 4,121,757</b>

## 4.8 Issued Capital

- a) Authorized  
 Unlimited common shares without par value  
 Unlimited Class “A” Preference shares

- b) Issued

Shares issued and outstanding	Number of shares	Amount
December 31, 2012	47,390,976	\$ 19,241,753
Options exercised	577,186	234,088
December 31, 2013	47,968,162	19,475,841
Options exercised	471,750	444,563
<b>May 14, 2014</b>	<b>48,439,912</b>	<b>\$ 19,920,404</b>

## **5.0 OFF BALANCE SHEET ARRANGEMENTS**

As at March 31, 2014, and May 14, 2014, the Company did not have any off balance sheet arrangements.

## **6.0 RELATED PARTY TRANSACTIONS**

For the three months ended March 31, 2014, and 2013, the Company paid compensation to key management personnel and the amounts were recognized as expenses during the reporting periods.

## **7.0 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 uncollectable accounts. It is not unusual that government funded contracts can take longer than 90 days to be paid and any such delays reduce cash balances as they occur. Pursuant to their respective terms, net accounts receivable were aged as follows as at March 31, 2014, and December 31, 2013:

	<b>March 31, 2014</b>	December 31, 2013
Trade and other receivables		
Trade receivables	\$ 4,306,616	\$ 3,764,625
Allowance on trade receivables	(180,645)	(180,300)
Holdback	1,500,000	1,500,000
Allowance related to holdback	(300,000)	(300,000)
Total	\$ 5,325,971	\$ 4,784,325

Trade receivables	March 31, 2014	December 31, 2013
Current	\$ 2,264,374	\$ 2,147,382
31-60 days	375,560	246,663
61-90 days	597,033	20,755
Greater than 90 days	1,069,649	1,349,825
<b>Total</b>	<b>\$ 4,306,616</b>	<b>\$ 3,764,625</b>

Allowance for doubtful accounts	March 31, 2014	December 31, 2013
Opening	\$ (180,300)	\$ (170,792)
Allowance	(345)	(30,685)
Recovery	-	21,177
	(180,645)	(180,300)
Allowance related to holdback	(300,000)	(300,000)
<b>Total</b>	<b>\$ (480,645)</b>	<b>\$ (480,300)</b>

*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 March 31, 2014, the Company had cash of \$11,749,944, trade accounts and other receivables of \$5,325,971 for a total of \$17,075,915. The Company had short-term financial obligations from accounts payable and accrued liabilities of \$3,201,848 promissory note payable of \$83,495, current capital lease obligations of \$534,411 and current long-term debt of \$14,395 which total \$3,834,149. The liquidity and maturity timing of these assets are adequate for the settlement of the Company's short-term (less than one year) financial obligations.

Subsequent to March 31, 2014, approximately \$2,100,000 of other receivables, related to the funds held in escrow and other amounts collectable from the purchaser of the EMS division, has been collected.

March 31, 2014	Less than 1 year	1 to 4 years	Total
Accounts payable and accrued liabilities	\$ 3,201,848	\$ -	\$ 3,201,848
Promissory notes payable	83,495	-	83,495
Capital lease obligations (including interest)	555,968	453,392	1,009,360
Current and long-term debt (including interest)	15,115	-	15,115
<b>Total</b>	<b>\$ 3,856,426</b>	<b>\$ 453,392</b>	<b>\$ 4,309,818</b>

*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 March 31, 2014, approximately 10% (March 31, 2013 - 9%) of revenue was transacted in US dollars and the Company is exposed to foreign exchange risk thereon.

The Company manages currency risk by holding cash in foreign currencies to support forecasted foreign currency denominated liabilities and does not use derivative instruments to reduce its exposure to foreign currency risk. A 1% appreciation (depreciation) in the United States relative to the Canadian dollar would result in a gain (loss) of approximately \$6,888 (March 31, 2013 - \$5,549).

*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 calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

<b>Interest rate sensitivity</b>	<b>Profit and equity for the period</b>	
	<b>-1%</b>	<b>+1%</b>
<b>March 31, 2014</b>	\$ 117,355	\$ (117,355)
December 31, 2013	\$ 126,110	\$ (126,110)

## **8.0 CRITICAL ACCOUNTING ESTIMATES**

### **8.1 Significant Management Judgment**

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses:

#### *Capitalization of internally developed software*

Distinguishing the research and development phases of a new customized software project and determining whether the recognition requirements for the capitalization of development costs are met requires judgment. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired.

#### *Recognition of deferred tax assets*

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

#### *Recognition of Government contributions*

The Company recognizes Government contributions of eligible expenditures when there is reasonable assurance that the Company will comply with the conditions attached to the grant and the grant will be received. The company estimates Government contributions based on labour costs and expenses incurred and its belief of what will ultimately be approved for payment by Government agencies.

#### *Determination of discontinued operations*

Management considers the significance of the line of business to the Company in deciding whether to present operations that have been abandoned or sold as discontinued operations in the statement of earnings.

### **8.2 Estimation Uncertainty**

Information about estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

#### *Revenue Recognition*

Revenue from sales arrangements that include multiple elements is allocated amongst the separately identifiable components based on the relative fair value of each component included in the contract. In order to allocate total revenue to the individual components, management is required to estimate the fair value of each of those components as well as the average customer relationship period. A change in the estimated fair value of any component and/or the average customer relationship period may impact the value assigned to other components which also impacts the timing of revenue recognition over the term of the sales arrangement.

*Selling prices of multi-element sales arrangements*

Determining selling prices for multi-element arrangements follows a hierarchy of selling prices. If vendor specific objective evidence and third party evidence of selling price do not exist, then management's best estimate of selling price for the deliverable is used. This requires significant judgment in determining the selling price based on an understanding of the customer's use of the related product or service, historical experience and knowledge of the market.

*Impairment of long-lived assets*

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit ("CGU") based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

*Useful lives of depreciable assets*

The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain software and equipment.

*Inventories*

The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each report date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

*Business combinations*

The Company uses valuation techniques in determining fair values of the various elements of a business combination based on future expected cash flows and a discount rate. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

*Share-based payment*

The Company measures the cost of equity settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and making assumptions about them.

*Allowance for doubtful accounts*

The Company 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. Uncertainty relates to the actual collectability of customer balances that can vary from the Company's estimation.

### 8.3 Accounting Policies

*Business Combinations and Goodwill*

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 acquiree'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 three months 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 and acquisition date fair value of existing equity 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 periods ranging between two and five years, with vesting 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 period 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 period and the amortization method for an intangible asset with a finite useful life is reviewed at least annually. 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 period 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 Statements of Earnings and Comprehensive Income.

The assets with indefinite useful lives are not amortized, but are tested for impairment annually at the cash generating unit ("CGU") level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. 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 Statements 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	Three months
Developed technology	3 - 5 years
Channel partnership	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 Statements of Earnings and Comprehensive Income.

An impairment loss is reversed if there is an indication that an impairment loss previously recognized 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 Statements 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 never reversed.

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*

Revenue is measured at the fair value of consideration received or receivable from customers for goods and services provided by the Company, net of discounts and sales taxes. Service revenue consists primarily of fees for implementation or customization services, for license and activation of the Company's software as well as hosted services and support, maintenance and professional services. The Company also derives revenue from the sale of hardware and software licenses. The Company's fee model is described for each of the EMR, RCM and EMS divisions below.

Typically, the Company's software license agreements are multiple-element arrangements that also include the provision of maintenance, hosted services, professional services and, in certain cases, hardware. These multiple-element arrangements are assessed to determine if the elements can be treated as separately identifiable components for the purposes of revenue recognition. Consideration from the arrangement is allocated to each of the separately identified components on a relative fair value basis. Revenue is recognized for each component according to the stated revenue recognition policy.

Revenue from the provision of services is recognized when the Company has provided the services to the customer, the collection of the related receivable is deemed probable and the amount of revenue and costs incurred or to be incurred can be measured reliably.

Revenue from hardware and software license sales is recognized when the hardware is shipped or the software is delivered and when all significant contractual obligations have been satisfied. Revenue is recognized upon delivery where there is evidence of an arrangement, the significant risks and rewards of ownership have been transferred, the amount of revenue and associated costs can be measured reliably and it is probable that the associated economic benefits will flow to the entity.

Deferred revenue results from unearned activation fees in the EMR division, advance payments of support and maintenance and payments made in advance of the delivery of implementation or customization services where the Company has not met the criteria for revenue recognition as described above.

*EMR division*

EMR systems are sold based on monthly and annual subscription agreements with 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 and is recognized as the service is delivered on a monthly basis.

To initiate a new customer on the Company's EMR system, professional services are provided which include custom development and data integration services as well as training services. The Company considers each of these services to represent a separate component. Accordingly, the revenues from these services are recognized when the services within each component have been provided.

In some instances, the Company charges an activation fee to on-board new EMR customers as part of a multiple-element arrangement. When activation fees are charged, the Company allocates this fee to the various components of the arrangement on a relative fair value basis.

*RCM division*

In Canada, the RCM division derives revenue from the sale of integrated software solutions to exchange information for health plan enrolment, health insurance eligibility and other applications. This division's software solutions consist of the sale of software licenses as well as professional services such as consulting, training and installation. These sales are considered multiple-element arrangements that consist of three separately identifiable components, a software license, professional services to implement the software at a client's site and recurring support and maintenance services.

Revenue from the sale of software licenses is recognized after the completion of the initial warranty period. Professional services to implement the software are recognized as services are rendered and annual maintenance and customer support revenue is paid in advance and recognized on a straight-line basis throughout the year.

In the United States, the RCM division derives revenue from fees collected for processing medical billing claims, determining eligibility, setting up records, and producing patient statements. These revenues are recognized as the services are provided.

*EMS division – discontinued operation*

The EMS division derives revenue from integrated software applications including payroll, staff scheduling, human resources management, and customized financial software applications. EMS multiple-element contracts consist of three separately identifiable components, a software license, professional services to implement the software at a client's site and recurring support and maintenance services.

Revenue from the sale of software licenses is recognized after the completion of the initial warranty period. Professional services 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.

### *Income Taxes*

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

Current tax expense is the expected tax payable on the taxable income for the three months, using tax rates enacted or substantively enacted, adjusted for amendments to tax payable with regards to previous periods.

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. Deferred 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 period 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 Consolidated Statements of Earnings and Comprehensive Income.

## **9.0 CONTINGENCIES**

The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. The consequences of these matters are not presently determinable but, in the opinion of management after consulting with legal counsel, the ultimate aggregate liability is not currently expected to have a material effect on our results of operations or financial position.

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 received a statement of claim for \$70,000 related to billings for which 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 client has since been paid by the government subsequent to the period ended and as such, the Company expects this claim to be withdrawn.

## **10.0 BUSINESS RISKS AND UNCERTAINTIES**

There have not been any significant changes or updates to our risk and risk management approach and discussion as outlined in section 11.0 "Business Risks and Uncertainties" of our annual MD&A found at [www.sedar.com](http://www.sedar.com)

Investors should carefully consider the risks and uncertainties described in our annual 2013 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.

## **11.0 DISCLOSURE AND INTERNAL CONTROLS**

### **11.1 Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure.

### **11.2 Internal Controls over Financial Reporting**

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards. Management is responsible for establishing and maintaining adequate internal controls over our financial reporting.

### **11.3 Changes in Internal Controls over Financial Reporting**

During the three months ended March 31, 2014, there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.