



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

For the Three and Nine Months Ended September 30, 2014 and 2013

For further information, please contact:

Al Hildebrandt, President & CEO Phone: (250) 979-1701; E-Mail: [al.hildebrandt@QHRtechnologies.com](mailto:al.hildebrandt@QHRtechnologies.com)

Jerry Diener, VP Finance & CFO Phone: (250) 979-1722; E-Mail: [jerry.diener@QHRtechnologies.com](mailto:jerry.diener@QHRtechnologies.com)

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## **1.0 INTRODUCTION**

The following Management Discussion and Analysis of QHR Corporation (“QHR” or “the Company”) as of November 18, 2014, should be read in conjunction with the unaudited consolidated financial statements for the three and nine months ended September 30, 2014 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 provides technology solutions for healthcare providers, organizations and their patients. The Company provides its technology offerings, namely *Electronic Medical Records* (“EMR”) software and *Revenue Cycle Management* (“RCM”) services to more than 10,000 healthcare providers across Canada and the United States. With approximately 200 employees and offices in Canada and the United States, QHR has a well-established North American footprint. Due to the high quality of QHR’s technology offerings and its best in class support, the Company enjoys a high retention rate on its product offerings.

QHR has grown its market share organically with new to EMR clients, competitive replacements, and through acquisitions. QHR’s systems have superior workflows that save the caregiver time and can be tailored to each individual healthcare provider. The Company provides innovative and timely upgrades to software throughout the year.

From an acquisition stand point, the Company has selectively acquired legacy-based EMR and practice management systems that add to the Company’s recurring revenue stream and increases its customer base by converting to QHR’s more advanced Accuro® EMR systems. To facilitate conversions from a competitive replacement, or a legacy-based customer transition to the Accuro® system, QHR has developed sophisticated patient data conversion tools that allow customers to upgrade to the Accuro® without losing their historical patient data. This provides customers with a safe and practical upgrade path to newer, more cost effective technology. It also helps ensure they will remain on QHR’s EMR platform over the long-term. This industry leading data conversion process also helps enable QHR to win business away from its competitors (customer takeaways).

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

#### *EMR*

QHR markets its EMR software under the brand Accuro® EMR. 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 electronic medical records. It also conforms to the stringent requirements of EMR protocols that have been established by Federal and Provincial governments.

Accuro® is an EMR application that healthcare providers can deploy on a local server or as an ASP (SaaS Solution), hosted out of the QHR data centers in Eastern and Western Canada. 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 enabling Accuro® to be the leading EMR in Canada. QHR delivers new product releases using the agile release methodology, providing customers 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.

#### *RCM*

QHR markets its RCM software under the brand SoftCare. QHR’s RCM offering provides a suite of healthcare Interoperability solutions (EDI and Clearinghouse) as well as professional services. Specifically, SoftCare helps physicians, hospitals, health plan providers, insurance brokers and state governments better navigate the complex transaction integration processes required for Health Plan Enrollment through to Payment Remittance with their trading partners.

SoftCare’s EDI software supports processes such as Health Plan enrolment, Health Insurance Eligibility, Health Insurance Claims, and Claim Payments. It ensures the electronic transfer of information according to established HIPAA standards. For most healthcare organizations, integrating back-end business systems with electronic data interchange (EDI) software is extremely complex. With that in mind, SoftCare has created a comprehensive program that enables healthcare organizations to use their own information to create HIPAA-compliant EDI documents. The solution provides a centralized EDI management system to audit, manage and control the exchange of information.

ClaimsPlus, SoftCare's web-based claim editing and clearinghouse platform, helps healthcare providers and other claim processors collect reimbursements from payers faster and at less cost per claim. All types and sizes of organizations can reap the benefits of using ClaimsPlus, including providers, business process outsourcers, third-party administrators, self-insured employers and government health agencies.

Currently, QHR markets its SoftCare EDI and Clearinghouse's products primarily in the United States.

Through its RCM offering, QHR provides:

- 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
- EDI Health Claim Submission services to channel partners with EHR software & Ambulance software vendors for Clearinghouse services
- EDI Enrollment and verification for Health plans and TPAs to meet compliance of HIPAA and regulatory requirements
- Medical Billing Services for selected specialties such as Ophthalmology Physicians

### 2.3 Market Opportunity

The majority of QHR's 10,000 healthcare provider customers are in Canada, which is where 90% of its revenues are generated. The Company believes it is a clear leader in an estimated \$350 million physician led market in Canada, and is confident that there is significant opportunity to further expand beyond the Canadian borders. QHR's short-term objective is to add 1,000 new healthcare providers to its EMR platform annually.

In Canada, there is an estimated 72,000 practicing physicians, of which 51% are specialists and 49% are general practitioners. Of the total market, less than 50% currently use an EMR product. QHR's EMR software is the largest single platform product used in multiple provinces across Canada. The Company has established a strong market position in B.C., Alberta, Saskatchewan, Manitoba and Ontario. More recently, the Company made inroads in Nova Scotia. In these six provinces, QHR primarily targets physicians, healthcare providers and clinics, many of which are provincially funded entities that provide primary healthcare.

QHR has more than 9,000 physician clients in Canada, representing an approximate 17% share of the 52,000 practicing physicians in the six provinces in which it operates. In Ontario, Canada's largest EMR market with 24,000 physicians, the Company has an approximate 20% market share of physicians and recently received OntarioMD ASP funding approval.

### 2.4 Growth Strategy

#### *Strategic Vision – A Connected Platform*

QHR's long-term vision is to enable healthcare providers to be the center of connected patient care. To achieve this goal, the Company is focused on five Strategic Themes that will guide its decision making.

These five Strategic Themes are:

1. Evolving from a Healthcare IT company to a Healthcare IT and Solutions company.
2. Expanding and strengthening the Company's core physician platform.
3. Connecting, delivering technology-based patient engagement solutions that connect healthcare providers and patients.
4. Growing through a combination of organic initiatives, partnerships & alliances, and M&A.
5. Fostering a culture for clients and employees that is passionate, innovative and agile.

Underpinning these five Strategic Themes is the Company's continued focus on innovating, developing and acquiring new technologies that bring QHR closer to its long-term vision. It is the Company's intent that, collectively, these Strategic Themes will factor into all significant corporate decisions.

### *Growth Strategy*

Looking at the current healthcare market, the Company believes the future of delivering patient care to all levels of the healthcare system will be much more integrated with technology. QHR believes that Healthcare providers' interaction with technology will quickly grow beyond the core EMR, patient scheduling and billing management, to also include electronic referrals, prescribing and online patient interaction to promote timely delivery of more efficient healthcare. The Company's goal is to be at the center of this new connected patient care model by offering healthcare providers a simple and functional platform that allows them to incorporate these new tools into their daily routines.

QHR has two primary growth objectives:

1. Increase the number of providers on its core platform.
2. Increase its share of healthcare providers' spend.

The Company will increase the number of providers on its core platform through organic growth initiatives, partnerships and alliances and M&A activity.

Organically, QHR will work to:

- add net new healthcare providers to its core platform
- win customers away from competitors
- convert healthcare providers from legacy platforms

To complement the Company's organic growth initiatives related to increasing the number of providers on its core platform, QHR will work to enhance interoperability with other healthcare systems, building strategic partnerships and alliances. In addition, the Company will look at acquisition opportunities where it can acquire a physician customer base.

The Company will increase its share of healthcare providers' spend through organic growth initiatives, partnerships and alliances and M&A activity.

Organically, QHR will work to:

- innovate new features and functionality
- provide complementary service offerings
- cross-sell its new products into its existing physician base

To complement the Company's organic growth initiatives related to increasing its share of healthcare providers' spend, QHR will work to build new or complementary technology and services through strategic partnerships and alliances. In addition, the Company will look at acquisition opportunities where it can acquire new complementary technology and/or services.

By innovating and acquiring new features and functionality, along with partnering with complimentary technology and services, QHR will further establish itself as the industry leading provider of connected patient care. By providing a comprehensive product, the Company will consolidate healthcare providers' activity onto its platform, growing the potential revenue per customer. Using its leading position, the Company will grow its market share by introducing new customers to a connected platform, winning away providers from its competition, and converting legacy users to its current platform while also looking for acquisitions with established customer bases.

### *Recent Acquisitions*

QHR became a public company in June 2000. Since that time period the Company has announced and completed 14 transactions for the acquisition of companies, asset purchases of client bases, or physician related software and data center assets.

During the current 2014 fiscal year the company had the following acquisition related activities;

- On September 25, 2014 QHR announced that the company completed an agreement with Bell Canada to transition their Bell EMR clients to QHR's Accuro® EMR system. Conditional to this agreement was ensuring QHR qualified to be an OntarioMD certified and funding eligible EMR vendor in Ontario. QHR completed this certification and announced at the same time.

QHR already was a funded EMR vendor in Ontario as one of 12 EMR funded vendors approved by OntarioMD, however only three vendors (including Bell) were funded for ASP services. QHR is now the 4<sup>th</sup> funded ASP EMR vendor as shown on OntarioMD's website.

[www.ontariomd.ca/portal/server.pt/community/emr\\_offerings/offering\\_details/](http://www.ontariomd.ca/portal/server.pt/community/emr_offerings/offering_details/)

- On November 10, 2014 QHR announced it had reached an agreement to acquire Medeo Corporation, a Vancouver based virtual care company with a secure SaaS based video conferencing product for online physician interaction patients. The acquisition is conditional on the Medeo shareholders approving the transaction during November 2014. At the time of this report, Medeo is not a completed transaction however, the company has the signed commitment of more than 2/3's of the Medeo shareholders to complete the transaction.

When this transaction is completed, the Company expects significant interest not only by QHR clients to use this add-on product, but also as a standalone product by physicians who may not already be on QHR's EMR product offering. Integrating Medeo with Accuro® EMR will provide a seamless workflow for physician clients that work in a single system for their clinic in person practices, or online when the need arises.

## 2.5 Business Model

### *Revenue model*

#### *EMR Revenue Model*

QHR's revenue model for its EMR software is based on 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. QHR recognizes the related revenue on a monthly basis. Revenue from fees to cover the cost of training and implementation are 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.

QHR charges customers of acquired EMR and patient management systems, a recurring monthly or annual fee for software maintenance and support. From time-to-time, customers pay annual maintenance and support payments in advance. The Company records these payments 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 QHR may resell hardware in conjunction with its EMR software implementation to facilitate customer requirements. Revenue from these services and the associated hardware sales is recognized as they are delivered. The Company also provides maintenance and other recurring services, including customer support and software updates which are renewable at the option of the customer.

#### *RCM Revenue Model*

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

QHR recognizes revenue 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, QHR 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.

*Measuring progress*

QHR is committed to driving increasing value to its shareholders through a balanced commitment to innovation, strategic growth and by delivering on promised results. To measure its progress toward enabling healthcare providers to become the center of connected patient care, QHR tracks its performance in the following four areas:

<b>Financial Performance</b>	<b>Growth</b>
<ul style="list-style-type: none"> <li>• Total revenue</li> <li>• Recurring revenue</li> <li>• EBITDA margin</li> <li>• Cash flow</li> </ul>	<ul style="list-style-type: none"> <li>• Organic initiatives</li> <li>• M&amp;A</li> <li>• Partnerships</li> </ul>
<b>Market Customers</b>	<b>Resource and Assets</b>
<ul style="list-style-type: none"> <li>• Platform expansion</li> <li>• Number of healthcare providers</li> <li>• Healthcare provider retention</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced leadership</li> <li>• Intellectual property</li> <li>• Culture</li> </ul>

### **3.0 DISCONTINUED OPERATIONS**

On December 18, 2013, the Company sold the assets and liabilities of its EMS division for a cash consideration of \$20,000,000 less working capital and customary adjustments. All monies in escrow and the final working capital adjustments have been received. As a result, the \$235,349 gain (net of tax) for the nine months ended September 30, 2014, is partly related to the recovery of a \$300,000 allowance for doubtful accounts previously recorded as an estimated reduction to the escrow funds receivable. As all of the \$1,500,000 that was held in escrow was received, this allowance was reversed.

### **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 September 30, 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 unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2014.

#### 4.2 Selected Consolidated Financial Information

<b>Three months ended September 30</b>	<b>2014</b>	<b>2013</b>
<b>REVENUE</b>	\$ 6,930,690	\$ 5,993,088
<b>OPERATING EXPENSES</b>		
Cost of goods sold	758,786	658,863
Service costs	1,894,087	2,232,111
Research and development	824,214	711,133
Sales and marketing	1,462,965	921,815
General and administrative	1,168,944	873,556
	<b>6,108,996</b>	<b>5,397,478</b>
Earnings before the following items	821,694	595,610
Stock-based compensation expense	104,711	204,319
Amortization of property and equipment	232,016	209,759
Amortization of intangible assets	404,599	437,553
Interest expense	17,224	46,035
Foreign exchange	(3,014)	5,594
	<b>755,536</b>	<b>903,260</b>
<b>Earnings from continuing operations before taxes</b>	<b>66,158</b>	<b>(307,650)</b>
Provision for (recovery of) income taxes		
Deferred	5,523	(48,852)
	<b>5,523</b>	<b>(48,852)</b>
<b>Net earnings (loss) from continuing operations</b>	<b>60,635</b>	<b>(258,798)</b>
Net earnings from discontinued operations (net of taxes)    Sec. 3.0	13,349	243,113
<b>Net earnings</b>	<b>\$ 73,984</b>	<b>\$ (15,685)</b>

#### 4.3 Third quarter financial information

The following is Q3 2014, financial information for continuing operations:

- The Company on a consolidated basis recorded record revenue of \$6,930,690 an increase of \$937,602 or 16% over the \$5,993,088 in revenue recorded in the third quarter of 2013.
- The consolidated revenue of \$6,930,690 represents a new record quarterly revenue milestone for the continuing operations of the Company.
- EBITDA on a consolidated basis was \$821,694 in Q3, compared to \$595,610 in Q3 of 2013, an increase of 38%.
- The EMR division recorded revenue of \$6,163,298 that represents an increase of \$828,235, or 16% over the \$5,335,063 revenue recorded in the Q3 of 2013.
- Consolidated recurring revenue for Q3 of 2014 was 83% of total revenue, which compares to 76% for Q3 of 2013.

#### 4.4 Results of Operations

<b>Three months ended September 30, 2014</b>	EMS	EMR	RCM	Total
Revenue	\$ -	\$ 6,163,298	\$ 767,392	\$ 6,930,690
Cost of goods sold	-	589,665	169,121	758,786
Service costs	-	1,513,995	380,092	1,894,087
Research and development	-	571,091	253,123	824,214
Sales and Marketing	-	1,227,719	235,246	1,462,965
General and administrative	-	947,244	221,700	1,168,944
	-	4,849,714	1,259,282	6,108,996
Earnings before the following items	-	1,313,584	(491,890)	821,694
Stock-based compensation	-	87,120	17,591	104,711
Amortization of property and equipment	-	201,238	30,778	232,016
Amortization of intangible assets	-	327,176	77,423	404,599
Interest expense	-	13,892	3,332	17,224
Foreign exchange	-	(1,476)	(1,538)	(3,014)
	-	627,950	127,586	755,536
Earnings (loss) from continuing operations before tax	-	685,634	(619,476)	66,158
Income tax (recovery)		238,606	(233,083)	5,523
Net earnings (loss) from continuing operations		447,028	(386,393)	60,635
Net earnings from discontinued operations	13,349	-	-	13,349
Net earnings (loss)	\$ 13,349	\$ 447,028	\$ (386,393)	\$ 73,984

<b>Three months ended September 30, 2013</b>	EMS	EMR	RCM	Total
Revenue	\$ -	\$ 5,335,063	\$ 658,025	\$ 5,993,088
Cost of goods sold	-	479,440	179,423	658,863
Service costs	-	1,912,296	319,815	2,232,111
Research and development	-	489,026	222,107	711,133
Sales and Marketing	-	834,927	86,888	921,815
General and administrative	-	675,131	198,425	873,556
	-	4,390,820	1,006,658	5,397,478
Earnings before the following items	-	944,243	(348,633)	595,610
Stock-based compensation	-	180,066	24,253	204,319
Amortization of property and equipment	-	189,584	20,175	209,759
Amortization of intangible assets	-	335,314	102,239	437,553
Interest expense	-	39,027	7,009	46,035
Foreign exchange	-	1,022	4,572	5,594
	-	745,013	158,248	903,260
Earnings (loss) from continuing operations before tax	-	199,230	(506,881)	(307,650)
Income tax (recovery)	-	114,695	(163,547)	(48,852)
Net earnings (loss) from continuing operations	-	84,535	(343,334)	(258,798)
Net earnings from discontinued operations	243,113	-	-	243,113
Net earnings (loss)	\$ 243,113	\$ 84,535	\$ (343,334)	\$ (15,685)

##### *Revenue*

The Company recorded revenue of \$6,930,690 for the three months ended September 30, 2014, compared to \$5,993,088 in 2013 an increase of 16%. The Company also recorded revenue of \$20,534,103 for the 9 months ended September 30, 2014, compared to \$17,562,030 in 2013 an increase of 17%.

The EMR division revenue for the third quarter was a record \$6,163,298 compared to \$5,335,063 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 third quarter was \$767,392, compared to \$658,025 for the same period last year, an increase of 17%. The majority of this revenue increase comes from the U.S. customer base.

On a consolidated basis, 83% of the revenue (approximately \$23.0 million annual run rate) is derived from recurring revenues. The EMR division's quarterly results have historically been less volatile as recurring revenues provide a consistent revenue stream.

*Operating Expenses*

Total operating expenses for the three months ended September 30, 2014, was \$6,108,996 compared to \$5,397,748 for the same period in 2013, an increase of 13% which is due to the growth initiatives for the company, which generated a 16% increase in revenue.

EBITDA for the three months ended September 30, 2014, was \$821,694 compared to \$595,610 for the same period in 2013, an increase of \$226,084 or 38%. EBITDA margin as a percentage increased from 9.9% during Q3 2013, to 11.9% in Q3 2014. Q3 2014 EBITDA is higher than Q3 2013 and should be noted that in Q3 2014 all corporate costs are allocated to the EMR and RCM divisions whereas in Q3 2013 a portion of the corporate costs were also allocated to the discontinued 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	\$ 6,835,885	\$ 6,930,690	
EBITDA	880,878	636,863	821,694	
Net earnings	96,433	65,687	60,635	
Comprehensive earnings (loss)	185,817	(15,702)	196,229	
Net earnings per share – basic	0.00	0.00	0.00	
Net earnings per share – diluted	0.00	0.00	0.00	
Weighted average common shares outstanding				
Basic	48,211,722	48,508,527	48,679,462	
Diluted	50,090,314	49,897,403	50,185,523	
<b>2013</b>				
Revenue	\$ 5,852,925	\$ 5,716,017	\$ 5,993,088	\$ 6,091,348
EBITDA	904,438	510,204	595,610	(236,411)
Net earnings (loss)	163,734	(233,302)	(258,798)	(1,346,341)
Comprehensive earnings (loss)	197,125	(171,582)	(303,136)	(1,315,483)
Net earnings per share – basic	0.00	0.00	(0.01)	(0.03)
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

*Economic Outlook and Company Strategy*

Healthcare is a steady and growing marketplace. New client contracts secured during 2014 indicate continued growth opportunities as planned 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 healthcare information technology infrastructure thereby creating more demand for the Company's products.

Management remains focused on implementing business models 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 also expects to achieve growth in the Company's market position; through 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 to address customers' needs and regularly evaluate strategic acquisitions. The Company is well capitalized to support operational growth and to fund acquisitions.

**4.5 Liquidity and Financial Condition**

	<b>September 30, 2014</b>	December 31, 2013	September 30, 2013
Cash	\$ 15,299,650	\$ 12,633,844	\$ 1,468,211
Working capital <sup>(1)</sup>	14,992,913	13,568,117	1,035,640
Shareholders' equity	28,367,289	26,975,427	20,277,036

(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 third quarter with cash on hand of \$15,299,650 compared to \$12,633,844 in December 31, 2013. The Company had positive working capital of \$14,992,913 at September 30, 2014, an increase of \$1,424,796 from December 31, 2013 and an increase of \$13,957,273 from September 30, 2013.

*Operating Activities*

For the nine months ended September 30, 2014, operating activities resulted in net cash inflows from continuing operations of \$2,667,618 compared to net cash inflows of \$1,720,327 for the same period in 2013. The variance was largely the result of improved net earnings and changes in working capital period over period.

*Investing Activities*

For the nine months ended September 30, 2014, the Company had net cash outflows from investing activities of \$340,108 compared to \$1,106,855 for the same period in 2013.

*Financing Activities*

For the nine months ended September 30, 2014, the Company had net financing outflows of \$32,685 compared to net outflows of \$2,104,077 for the same period in 2013. These decreased net outflows are the result of reduced debt repayment requirements.

#### 4.6 Capital Resources

Our capital resources as at September 30, 2014, were in cash in the amount of \$15,299,650. 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 September 30, 2014, (December 31, 2013 - \$Nil). The interest rate is at the Bank’s prime rate plus 1.15% per annum. At September 30, 2014, the effective rate on this credit facility if used would be 4.15% (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 September 30, 2014, are quantified in the following table:

<b>September 30, 2014</b>	Less than 1 year	1 to 5 years	Total
Capital lease obligations (including interest)	\$ 570,188	\$ 318,036	\$ 888,224
Operating office leases	240,547	2,766,416	3,006,963
<b>Total</b>	<b>\$ 810,735</b>	<b>\$ 3,084,452</b>	<b>\$ 3,895,187</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	707,375	669,508
<b>September 30, 2014</b>	<b>48,675,537</b>	<b>\$ 20,145,349</b>

## 5.0 OFF BALANCE SHEET ARRANGEMENTS

As at September 30, 2014, and November 18, 2014, the Company did not have any off balance sheet arrangements.

## **6.0 RELATED PARTY TRANSACTIONS**

For the three months ended September 30, 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. Pursuant to their respective terms, net accounts receivable were aged as follows as at September 30, 2014, and December 31, 2013:

Trade and other receivables	<b>September 30, 2014</b>	December 31, 2013
Trade receivables	\$ 3,296,365	\$ 3,764,625
Allowance on trade receivables	(35,958)	(180,300)
Holdback	-	1,500,000
Allowance related to holdback	-	(300,000)
Total	\$ 3,260,407	\$ 4,784,325

Trade receivables	<b>September 30, 2014</b>	December 31, 2013
Current	\$ 1,371,123	\$ 2,147,382
31-60 days	140,891	246,663
61-90 days	92,795	20,755
Greater than 90 days	1,691,556	1,349,825
Total	\$ 3,296,365	\$ 3,764,625

	<b>September 30, 2014</b>	December 31, 2013
Allowance for doubtful accounts		
Opening	\$ (180,300)	\$ (170,792)
Allowance	(25,345)	(30,685)
Recovery	169,687	21,177
	(35,958)	(180,300)
Allowance related to holdback	-	(300,000)
<b>Total</b>	<b>\$ (35,958)</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 September 30, 2014, the Company had cash of \$15,299,650, trade accounts and other receivables of \$3,260,407 for a total of \$18,560,057. The Company had short-term financial obligations from accounts payable and accrued liabilities of \$3,570,115 promissory note payable of \$83,495, current capital lease obligations of \$565,683 which total \$4,219,293. 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.

<b>September 30, 2014</b>	Less than 1 year	1 to 3 years	Total
Accounts payable and accrued liabilities	\$ 3,570,115	\$ -	\$ 3,570,115
Promissory notes payable	83,495	-	83,495
Capital lease obligations (including interest)	570,188	318,036	888,224
<b>Total</b>	<b>\$ 4,223,798</b>	<b>\$ 318,036</b>	<b>\$ 4,541,834</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 September 30, 2014, approximately 9.5% (September 30, 2013 – 10.2%) 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 \$19,562 (September 30, 2013 - \$17,891).

*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>	Profit and equity for the period	
	-1%	+1%
<b>September 30, 2014</b>	\$ 152,997	\$ (152,997)
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.

*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 negative material impact arising from this litigation.

## **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 September 30, 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.