



Protech Home Medical Corp.

Condensed Consolidated Interim Financial Statements

2019 Second Quarter

For the Three Months and Six Months Ended
March 31, 2019 and 2018
(UNAUDITED)

(Expressed in Canadian dollars)

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated interim financial statements of the Protech Home Medical Corp., formerly Patient Home Monitoring Corp., (the "Company") have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company.

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

PROTECH HOME MEDICAL CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

(Expressed in thousands of Canadian Dollars, except per share amounts)

	Notes	As at March 31, 2019	As at September 30, 2018
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 19,129	\$ 4,331
Accounts receivable		17,201	12,522
Inventory	3	7,589	5,640
Prepaid expenses and other current assets		761	489
Total current assets		<u>44,680</u>	<u>22,982</u>
Long-term			
Property and equipment, net	4	19,419	20,888
Goodwill	5	2,770	1,839
Intangible assets, net	5	3,076	3,275
Deposits		104	121
Total long-term assets		<u>25,369</u>	<u>26,123</u>
TOTAL ASSETS		<u>\$ 70,049</u>	<u>\$ 49,105</u>
LIABILITIES			
Current Liabilities			
Trade payables		\$ 9,281	\$ 6,292
Accrued liabilities		1,819	2,350
Financial lease payable	7	8,843	9,658
Current portion of debentures	7	7,713	-
Purchase price payable	6	576	-
Other liabilities		48	-
Warrant liability	8	123	95
Total current liabilities		<u>28,403</u>	<u>18,395</u>
Long-Term Liabilities			
Long-term debt	7	<u>17,151</u>	<u>11,440</u>
Total long-term liabilities		<u>17,151</u>	<u>11,440</u>
TOTAL LIABILITIES		<u>45,554</u>	<u>29,835</u>
SHAREHOLDERS' EQUITY			
Share capital	9	198,083	193,951
Contributed surplus		19,568	19,041
Accumulated other comprehensive income		13,294	12,332
Accumulated deficit		<u>(206,450)</u>	<u>(206,054)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>24,495</u>	<u>19,270</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>\$ 70,049</u>	<u>\$ 49,105</u>

Commitments and Contingency (Note 9)
Going Concern (Note 1(b))

APPROVED ON BEHALF OF THE BOARD:

signed "Donald Ewing"

signed "Mark Greenberg"

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

PROTECH HOME MEDICAL CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND
COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

(Expressed in thousands of Canadian Dollars, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Revenue				
Sale of medical equipment and supplies	\$ 8,160	\$ 7,041	\$ 16,240	\$ 13,317
Rental of medical equipment / Patient monitoring services	13,753	11,683	27,373	23,932
Total Revenue	\$ 21,913	\$ 18,724	\$ 43,613	\$ 37,249
Cost of revenue	6,356	5,171	12,493	11,052
Gross margin	\$ 15,557	\$ 13,553	\$ 31,120	\$ 26,197
Selling, general and administrative	11 11,402	11,329	22,608	22,463
Depreciation	4 2,985	3,890	6,252	7,951
Amortization of intangible assets	5 151	155	303	322
Stock-based compensation	9 361	1,225	891	1,669
Other expense (income)	-	(15)	5	(8)
Loss (gain) from distribution on spin-off	2 -	194	-	(21,509)
Gain on disposal of property and equipment	165	(5)	163	(24)
Net gain (loss) from continuing operations before financing expenses, taxes and discontinued operations	\$ 493	\$ (3,220)	\$ 898	\$ 15,333
Financing expenses				
Interest on subordinated debentures	162	162	323	324
Other interest expense (income)	182	82	318	157
Accretion expense	420	367	520	416
Loss (gain) on derivative financial liability	8 96	(99)	28	(238)
Net gain (loss) from continuing operations before taxes	\$ (367)	\$ (3,732)	\$ (291)	\$ 14,674
Provision for income taxes	163	90	105	89
Net gain (loss) from continuing operations after taxes and before discontinued operations	\$ (530)	\$ (3,822)	\$ (396)	\$ 14,585
Discontinued operations:				
Net income (loss) from assets and liabilities held for distribution	14 -	-	-	4,205
Combined operations:				
Net gain (loss) after taxes	\$ (530)	\$ (3,822)	\$ (396)	\$ 18,790
Other comprehensive income (loss)				
Cumulative translation adjustment	(492)	725	962	787
Comprehensive income (loss)	\$ (1,022)	\$ (3,097)	\$ 566	\$ 19,577
Net income (loss) per share				
Basic – continuing operations	12 \$ (0.006)	\$ (0.050)	\$ (0.005)	\$ 0.194
Basic – discontinued operations	12 0.000	0.000	0.000	0.056
Diluted – continuing operations	12 (0.006)	(0.050)	(0.005)	0.177
Diluted – discontinued operations	12 0.000	0.000	0.000	0.051
Weighted average number of common shares outstanding:				
Basic	82,176	75,819	82,176	75,299
Diluted	87,625	75,819	87,625	82,590

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

PROTECH HOME MEDICAL CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(Expressed in thousands of Canadian Dollars)

	Number of Shares (000's)	Capital stock	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	
Balance September 30, 2017	75,539	\$193,459	\$ 17,153	\$(131,511)	\$9,924	\$89,025
Warrants exercised (Note 9)	280	492	(240)	-	-	252
Cancellation and reissuance of Common shares and options on Spin off (Note 9)	-	-	(212)	-	-	(212)
Distribution of spin off (Note 9)	-	-	-	(93,290)	1,565	(91,725)
Stock based compensation (Note 9)	-	-	1,880	-	-	1,880
Net income	-	-	-	18,790	-	18,790
Other comprehensive income	-	-	-	-	787	787
Balance March 31, 2018	75,819	\$193,951	\$18,581	\$(206,011)	\$12,276	\$18,797
Balance September 30, 2018	75,819	\$193,951	\$19,041	\$(206,054)	\$12,332	\$19,270
Stock based compensation options (Note 9)	-	-	891	-	-	891
Issuance of warrants	-	(358)	358	-	-	-
Proceeds from issuance of new shares (Note 9)	7,483	4,490	(886)	-	-	3,604
Shares issued as part of acquisition	227	-	164	-	-	164
Net loss	-	-	-	(396)	-	(396)
Other comprehensive income	-	-	-	-	962	962
Balance March, 2019	83,529	\$198,083	\$19,568	\$(206,450)	\$13,294	\$24,495

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

PROTECH HOME MEDICAL CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Expressed in thousands of Canadian Dollars)

	Notes	Six months ended March 31, 2019	Six months ended March 31, 2018
Operating activities			
Net income (loss) from continuing operations		\$ (396)	\$ 14,585
Adjustments to reconcile net loss			
Items not affecting cash			
Depreciation and amortization		6,555	8,273
Accretion expense		520	416
Change in value of derivative financial liability	8	28	(238)
Gain from distribution of spin-off	2	-	(21,509)
Loss (gain) on disposal of property and equipment		163	(24)
Stock based compensation	9	891	1,669
Bad debt expense	11	2,892	5,283
Change in Working Capital:			
Net increase in accounts receivable, excluding bad debt expense		(6,752)	(4,883)
Net (increase) decrease in inventory		(1,553)	457
Net (increase) decrease in other current assets		(219)	237
Net increase (decrease) in trade payables and accrued liabilities		1,979	(325)
Net cash flow received in operating activities		4,108	3,941
Investing activities			
Purchase of property and equipment		(568)	(4,891)
Cash proceeds from sale of property and equipment		15	26
Cash paid for acquisition		(526)	-
Net cash flow used in investing activities		(1,079)	(4,865)
Financing activities			
Proceeds from issuance of common shares (bought deal)		3,604	1,352
Proceeds from options and warrants exercised		-	252
Net (payments) borrowings on lease liabilities		(6,382)	1,175
Proceeds from issuance of debenture	7	13,959	-
Cancellation of shares		-	(1,352)
Net cash flow received in financing activities		11,181	1,427
Net increase in cash and cash equivalents		14,210	503
Effect of exchange rate changes on cash held in foreign currencies		588	70
Cash, beginning of year		4,331	3,391
Cash, end of year		\$ 19,129	\$ 3,964

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

PROTECH HOME MEDICAL CORP.
NOTES TO THE CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

March 31, 2019 and 2018

(Tabular dollar amounts expressed in thousands of Canadian Dollars, except per share amounts)

1. Nature of operations

Reporting entity

Protech Home Medical Corp. ("PHM Corp" or the "Company") was incorporated under the Business Corporations Act (Alberta) on March 5th, 1993. On December 30, 2013, the Company was continued into British Columbia, Canada. The address of the registered office is 5626 Larch St. Suite 202, Vancouver, BC V6M 4E1 (Canada). The head office is located at 1019 Town Drive, Wilder, Kentucky (USA). The Company's main revenue source is in providing in-home monitoring equipment, supplies and services to patients in the United States. The Company has also embarked on an acquisition strategy for additional revenue and profit growth.

The Company changed its name from Patient Home Monitoring Corp. to Protech Home Medical Corp. on April 4, 2018.

The Company's shares are traded on the TSX Venture Exchange under the symbol PTQ. The stock is also traded over the counter under the symbol PTQZF.

On December 21, 2017 the Company executed Asset and Share Purchase Agreements as well as an Arrangement Agreement ("Arrangement") with Viemed Healthcare, Inc. ("Viemed"), which was a wholly owned subsidiary of the Company and was spun-out as a separate public company that owns a 100% interest in Home Sleep Delivered, L.L.C. and Sleep Management, L.L.C. The statements and the notes reflect the Viemed entity as a discontinued operation, see Note 14.

Share consolidation

Effective December 31, 2018, the Company consolidated its common shares on the basis of one (1) new post-consolidation common share for every five (5) pre-consolidation common shares. The consolidation will affect shareholders uniformly, including holders of outstanding incentive stock options, warrants and other securities convertible into exercisable for common shares on the effective date.

Going concern

These consolidated financial statements have been prepared on a going concern basis. The application of the going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operation. If this assumption was not appropriate, adjustments to these condensed consolidated financial statements may be necessary.

2. Summary of significant accounting policies

Unreserved statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. These condensed consolidated interim financial statements do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the years ended September 30, 2018 and 2017.

The Company has followed the same basis of presentation, accounting policies and method of computation for these condensed consolidated interim financial statements as disclosed in the annual audited consolidated financial statements for the years ended September 30, 2018 and 2017.

The unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on March 21, 2019.

These unaudited condensed consolidated interim financial statements, which are presented in Canadian dollars, have been prepared under the historical cost convention, as modified by the measurement at fair values of certain financial assets and financial liabilities.

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New accounting standards update

- i. IFRS 15 Revenue from Contracts with Customers – The Company adopted IFRS 15 on October 1, 2018 using the modified retrospective approach.

The Company's revenue is derived from its performance obligation to deliver the Company's products and services to its customers. Revenue is recognized when control of the Company's products are transferred to its customers and when the customer obtains control of the Company's product. The Company considers control to have passed at the point of shipment or delivery or over time as the customer simultaneously receives and consumes the benefits provided by the Company's performance. In each period, the Company recognizes revenue, net of any variable consideration, including the right of return. Revenue includes amounts subject to returns only if it is highly probable that there will be no significant reversal of cumulative revenue if the estimate of expected returns changes

- ii. IFRS 9 Financial Instruments – The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The Company determines the classification of the financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading including all equity derivative instruments are classified as FVTPL. For other equity instruments, the company assesses on an instrument by instrument basis and designates them at FVTOCI.

Measurement of financial assets and liabilities, except for derivatives, are valued at amortized cost and are initially recognized at fair value, subsequently carried at amortized cost less any impairment. At each reporting date, the Company measures the loss allowance for the financial assets at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since the last recognition. The derivative liabilities the Company holds are valued at FVTPL and the gains and losses associated with these flows through the Statement of Income (Loss) and Other Comprehensive Income (Loss).

Derecognition of financial assets is done when the contractual right to the cash flows from the asset expire or when it transfers the financial assets and all the risks and rewards of ownership to another entity. Derecognition of financial liabilities is done when the obligation has been fulfilled or discharged. All gains and losses associated with the discharge or derecognition are recognized in the Statement of Income (Loss) and Other Comprehensive Income (Loss).

- iii. IFRS 16 Leases - In January 2016, the IASB issued a new IFRS on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the ACSB in June 2016. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements, but adoption will not occur until next fiscal year.

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Gain on Settlement of distribution liability

The Arrangement involving Viemed, a newly incorporated company was completed after a shareholder vote, as of close of business on December 21, 2017. Under this Arrangement agreement, all shareholders received one new PHM common share (a "New PHM Share") and one-tenth (1/10) of one common share of Viemed (a "Viemed Share") for each common share of PHM held by such Shareholder immediately prior to the completion of the Arrangement. Also in connection with the Arrangement, (a) for each stock option of PHM held, each option holder that remains employed or engaged by PHM will receive one option to purchase one New PHM Share (a "New PHM Option") and PHM option holders employed or engaged by Viemed will receive one New PHM Option (which will expire three months following completion of the Arrangement) and one tenth (1/10) of one option to purchase from Viemed one Viemed Share, and (b) for each common share purchase warrant of PHM held, each warrant holder will receive one warrant to purchase from PHM one New PHM Share (a "New PHM Warrant") and one tenth (1/10) of one warrant to purchase from Viemed one Viemed Share. The New PHM Options were issued pursuant to the PHM stock option plan which was approved by Shareholders at an annual and special meeting of Shareholders held on December 15, 2017. At the meeting, the Shareholders also approved the adoption of a restricted share unit and deferred share unit plan. Pursuant to the PHM stock option plan and restricted share unit and deferred share unit plan, PHM may reserve up to an aggregate of 75,819,279 PHM Shares pursuant to awards granted under the plans.

Upon completion of the Arrangement and at the time of listing, PHM had a total of 379,096,396 Common Shares, 26,005,058 common share purchase warrants and 17,906,179 (8,388,978 of which held by option holders employed or engaged by Viemed that expired on March 21, 2018) stock options outstanding.

The New PHM Shares commenced trading on the TSX Venture Exchange (the "TSXV") on December 22, 2017 under the stock symbol "PHM", and PHM's outstanding 7.5% non-convertible unsecured subordinated debentures maturing on December 31, 2019, continued to trade under the symbol "PHM.DB."

The Company accounted for the distribution in accordance with IFRS 17, Distribution of Non-Cash Assets to Owners, which required the assets being distributed to be recognized at fair value. The Company used significant judgement related to the fair value measurement of assets and liabilities distributed pursuant to the Arrangement. The estimates required management to exercise judgement concerning valuation approaches and methods, estimates of future cash flows, and discount rates. The distribution amount being the fair value of Viemed of \$93,290,000 was set up as a distribution liability with a corresponding charge to deficit and accumulated comprehensive income (loss).

The assets and liabilities which were distributed to the Company's shareholders in connection with the spin-off of Viemed on December 21, 2017 pursuant to the Arrangement comprised of cash of \$7,856,000, accounts receivable of \$11,811,000, prepaid and other assets of \$2,829,000, property and equipment of \$27,323,000, intangibles of \$18,761,000, goodwill of \$18,005,000, accounts payable and accrued liabilities of \$8,390,000 and capital lease payables of \$6,608,000. Total carrying value of net assets distributed on spin off was \$71,587,000. A net gain of \$21,509,000 was recorded on the spin-out after considering transaction expenses.

Functional currency

Management has exercised judgment in selecting the functional currency of each of the entities that it consolidates based on the primary economic environment in which the entity operates and in reference to the various indicators including the currency that primarily influences or determines the selling prices of goods and services and the cost of production, including labor, material and other costs and the currency whose competitive forces and regulations mainly determine selling prices.

The consolidated financial statements of the Company are presented in Canadian dollars, which is the parent company's presentation and functional currency, but which differs from its subsidiaries' functional currency, the US dollar, which was determined using management's assumption that the primary economic environment which it will derive its revenue and expenses incurred to generate those revenues is the United States.

Business combinations

Business combinations are accounted for using the acquisition method. For each business combination at the acquisition date, the Company recognizes at fair value of the identifiable assets acquired, the liabilities assumed, the non-controlling interest in the acquiree and the aggregate of the consideration transferred, including any contingent consideration to be transferred. When the fair value of the consideration transferred, and the amount recognized for non-controlling interest and the acquisition-date fair value of any existing equity interest in the acquiree exceeds the net amount of the identifiable assets acquired and the liabilities assumed measured at fair

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value (the “net identifiable assets”), the difference is treated as goodwill. After initial recognition, goodwill is measured at its initial cost from the acquisition date, less any accumulated impairment losses. Goodwill is reviewed at least annually for impairment or when there is an indication of potential impairment. If the fair value of the Company’s share of the net identifiable assets exceeds the sum calculated above, the difference (i.e. gain on a bargain purchase) is immediately recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date fair value of the previously held interest in the acquiree is re-measured to fair value as at the acquisition date through profit or loss.

3. Inventory

	As at March 31, 2019	As at September 30, 2018
Serialized	\$ 3,715	\$ 2,148
Non-serialized	3,874	3,492
Total inventory	\$ 7,589	\$ 5,640

	For three months ended March 31, 2019	For six months ended March 31, 2019	For three months ended March 31, 2018	For six months ended March 31, 2018
Inventory expensed in cost of revenue	\$ 6,018	\$ 12,009	\$ 4,892	\$ 10,341

4. Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Major renewals and improvements are charged to the property accounts, while maintenance, and repairs, which do not extend the useful life of the respective assets, are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

The estimated useful lives of the assets are as follows:

<u>Description</u>	<u>Estimated Useful Lives</u>
Monitoring equipment	1-5 years
Computer equipment	5 years
Vehicles	5 years
Office furniture and fixtures	5 - 10 years
Leasehold improvements	Life of Lease

Depreciation of monitoring equipment commences once it has been deployed to a patient’s address and put in use. Property and equipment and other non-current assets with definite useful lives are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

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Cost	Monitoring equipment	Computer equipment	Office furniture and fixtures	Leasehold improvements	Vehicles	Total
Balance September 30, 2017	\$ 34,966	\$ 1,175	\$ 478	\$ 851	\$ 2,254	\$ 39,724
Additions	12,801	130	91	228	1,014	26,873
Acquisitions	600	13	2	-	6	621
Disposals	(12,453)	(126)	-	-	(66)	(12,645)
Foreign exchange	1,287	44	17	32	84	1,464
Balance September 30, 2018	\$ 37,201	\$ 1,173	\$ 635	\$ 1,364	\$ 2,875	\$ 43,248
Additions	3,651	9	2	62	357	4,081
Acquisitions	81	-	4	49	37	171
Disposals	(7,096)	(412)	(30)	(4)	(354)	(7,896)
Foreign exchange	1,154	36	21	45	93	1,349
Balance March 31, 2019	\$ 34,991	\$ 806	\$ 632	\$ 1,516	\$ 3,008	\$ 40,953
Accumulated Depreciation	Monitoring equipment	Computer equipment	Office furniture and fixtures	Leasehold improvements	Vehicles	Total
Balance September 30, 2017	\$ 17,196	\$ 621	\$ 188	\$ 163	\$ 925	\$ 19,093
Depreciation	14,035	232	108	95	448	11,202
Disposals	(12,323)	(126)	-	-	(44)	(12,493)
Foreign exchange	768	26	8	6	40	848
Balance September 30, 2018	\$ 19,676	\$ 753	\$ 303	\$ 263	\$ 1,365	\$ 22,360
Depreciation	5,752	74	61	66	299	6,252
Disposals	(7,091)	(304)	(30)	(4)	(347)	(7,776)
Foreign exchange	589	35	13	7	54	698
Balance March 31, 2019	\$ 18,926	\$ 558	\$ 347	\$ 332	\$ 1,371	\$ 21,534
Net Book Value	Monitoring equipment	Computer equipment	Office furniture and fixtures	Leasehold improvements	Vehicles	Total
Balance September 30, 2017	\$ 17,770	\$ 554	\$ 290	\$ 688	\$ 1,329	\$ 20,631
Balance September 30, 2018	\$ 17,530	\$ 420	\$ 332	\$ 1,101	\$ 1,510	\$ 20,888
Balance March 31, 2019	\$ 16,065	\$ 248	\$ 285	\$ 1,184	\$ 1,637	\$ 19,419

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5. Goodwill and intangible assets

The Company has recorded various intangible assets consisting primarily of non-compete agreements, trademarks, customer contracts and customer relationships.

Non-compete agreements are the value associated with the non-compete agreements entered by the sellers of purchased companies.

Trademarks are the purchase price allocation for the value associated with the trade name of the acquired company.

Customer contracts are comprised of the purchase price allocation of the present value of expected future customer billings based on the statistical life of a customer.

Customer relationships are the value given in the purchase price allocation to the long-term associations with referral sources such as doctors, medical centers, etc.

Finite life intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets as follows:

<u>Description</u>	<u>Estimated Useful Lives</u>
Non-compete agreements	5 Years
Trademarks	10 Years
Customer contracts	2 Years
Customer relationships	10 Years

Gains or losses arising from de-recognition 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 Statements of Net Loss and Comprehensive Loss when the asset is derecognized.

The Company reviews the estimates for useful lives on an annual basis, or more frequently if events during the year indicate that a change may be required, with consideration given to technological obsolescence and other relevant business factors. A change in management's estimate could impact depreciation/amortization expense and the carrying value of property and equipment and intangible assets.

Cost	Goodwill	Non-compete agreements	Brand	Customer contracts	Customer relationships and software	Sub-total intangibles with finite lives	Total
Balance September 30, 2017	\$ 1,773	\$ 645	\$ 1,674	\$ 4,653	\$ 10,861	\$ 17,833	\$ 19,606
Disposals	-	-	-	-	(269)	(269)	(269)
Effect of changes in exchange rates	66	24	62	173	402	661	727
Balance September 30, 2018	\$ 1,839	\$ 669	\$ 1,736	\$ 4,826	\$ 10,994	\$ 18,225	\$ 20,064
Acquisition	868	-	-	-	-	-	868
Disposals	-	-	-	-	(30)	(30)	(30)
Effects of changes in exchange rates	63	22	56	156	355	589	652
Balance March 31, 2019	\$ 2,770	\$ 691	\$ 1,792	\$ 4,982	\$ 11,319	\$ 18,784	\$ 21,554

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Accumulation amortization	Goodwill	Non- complete agreements	Brand	Customer contracts	Customer relationships and software	Sub-total intangibles with finite lives	Total
Balance September 30, 2017	\$ -	\$ 509	\$ 910	\$ 4,641	\$ 8,011	\$ 14,071	\$ 14,071
Additions	-	47	102	12	460	621	621
Disposals	-	-	-	-	(270)	(270)	(270)
Effect of changes in exchange rates	-	19	35	173	301	528	528
Balance September 30, 2018	\$ -	\$ 575	\$ 1,047	\$ 4,826	\$ 8,502	\$ 14,950	\$ 14,950
Additions	-	24	52	-	227	303	303
Disposals	-	-	-	-	(30)	(30)	(30)
Effect of changes in exchange rates	-	19	34	156	276	485	485
Balance March 31, 2019	\$ -	\$ 618	\$ 1,133	\$ 4,982	\$ 8,975	\$ 15,708	\$ 15,708

Net carrying amount	Goodwill	Non-compet e agree ments	Brand	Customer contracts	Customer relationships	Sub-total intangibles with finite lives	Total
Balance September 30, 2017	\$ 1,773	\$ 136	\$ 764	\$ 12	\$ 2,850	\$ 3,762	\$ 5,535
Balance September 30, 2018	\$ 1,839	\$ 94	\$ 689	\$ -	\$ 2,492	\$ 3,275	\$ 5,114
Balance March 31, 2019	\$ 2,770	\$ 73	\$ 659	\$ -	\$ 2,344	\$ 3,076	\$ 5,846

6. Acquisition of businesses and purchase accounting

On August 31, 2018, the Company executed a purchase agreement to acquire all the assets of Coastal Med-Tech Corp. (CMT), a Maine company, for a purchase consideration of \$546,000 which was paid in cash. The Company has determined that the transaction is an acquisition of a business under IFRS 3 and it has been accounted for by applying the acquisition method. CMT provides sales of nebulizers, oxygen concentrators, CPAP/BiPAP units, non-invasive ventilation equipment and supplies and traditional and non-traditional respiratory and durable medical equipment and services. The acquisition was performed due to synergies with company's existing business.

On October 31, 2018, the Company, through one of its indirect wholly owned subsidiary, PHM Logistics, entered into a purchase agreement to acquire 100% shares of Central Oxygen Inc. (Central Oxygen), an Indiana company and participating Medicare provider that provides i) power mobility equipment, vehicle lifts, nebulizers, oxygen concentrators, and CPAP and BiPAP units; ii) traditional and non-traditional durable medical equipment respiratory and durable medical equipment and services; and iii) non-invasive ventilation equipment, supplies and services. The amount paid was USD \$475,000. Of the total consideration, USD \$300,000 was paid on closing. The prior owner was awarded 227,491 shares at a cost of \$0.72 per share (see Note 9).

As we are still gathering information, the preliminary purchase consideration allocated to the net assets acquired, based on their estimated fair values was as follows:

Accounts receivable	\$ 31
Cash and cash equivalents	10
Inventory	42
Prepaid assets	2
Capital assets	46
Goodwill assessed at closing	658

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Holdback	(66)
Non-compete agreement	(152)
Stock issued	(164)
Accrued liabilities	(12)
	\$ 395
Consideration paid:	
Cash	395

On October 31, 2018, the Company, through one of its indirect wholly owned subsidiary, PHM Logistics Corporation (PHM Logistics), entered into a purchase agreement to acquire 100% shares of Riverside Medical Inc. (Riverside), a Tennessee company and participating Medicare provider that provides i) nebulizers, oxygen concentrators, and CPAP and BiPAP units; ii) traditional and non-traditional durable medical respiratory equipment and services; and iii) non-invasive ventilation equipment, supplies and services. In consideration, company paid cash of USD \$100 and agreed to cause the scheduled debt, up to an aggregate amount of USD \$108,000 to be satisfied in full and assumed debt in an aggregate amount of USD \$97,000.

As we are still gathering information, the purchase consideration allocated to the net assets acquired, based on their estimated fair values was as follows:

Accounts receivable	\$ 70
Cash and cash equivalents	9
Inventory	34
Capital assets	108
Goodwill assessed at closing	193
Debt and other loans	(168)
Accrued liabilities and payables	(115)
	\$ 131
Consideration paid:	
Cash	131

7. Long-term debt and finance leases

	At March 31, 2019	At September 30, 2018
Finance lease obligations (a)	\$ 12,035	\$ 13,905
Unsecured subordinate debentures (b) (c)	21,672	7,193
Total debt	33,707	21,098
Less:		
Current portion of debentures	(7,713)	-
Current portion of finance lease obligations	(8,843)	(9,658)
Total current portion of long-term debt	(16,556)	(9,658)
Net long-term debt	\$ 17,151	\$ 11,440

(a) Various finance leases for equipment with an implied interest rate at fixed rates between 0.0% - 11.5%, due between 2019 and 2023.

(b) On August 27, 2014, the Company issued \$8,625,000 in 7.5% Non-convertible Unsecured Subordinated Debentures due December 31, 2019. In connection with the new debt issued on August 27, 2014 the Company issued broker warrants to purchase 5,744,250 common shares. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.45 until August 27, 2019. The warrants were valued using Black-Scholes. The initial value of the Warrants of \$2,576,000,

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together with transaction cost of \$1,505,000, is netted against the carrying value of the debentures and accreted to interest expense using the effective interest rate method.

- (c) On March 7, 2019, The Company issued \$15,000,000 in 8.0% Convertible Unsecured Debentures due March 7, 2024. In connection with the new debt issued, the Company issued to the Underwriters compensation warrants to purchase 519,231 common shares (equal to 4.5% of aggregate number of common shares issuable by the company under the convertible debenture). Each warrant entitles the holder to purchase one common share of the Company at a price of \$1.30 until March 7, 2019. The warrants were valued using Black-Scholes. The transaction cost of \$1,041,000, is netted against the carrying value of the debentures and accreted to interest expense using the effective interest rate method.

8. Financial instruments

Financial assets are classified as fair value through profit and loss ("FVTPL"), available for sale, held to maturity or loans and receivables. Financial liabilities are classified as either FVTPL or other liabilities. Initially, all financial assets and financial liabilities must be recorded on the Consolidated Statements of Financial Position at fair value with subsequent measurement determined by the classification of each financial asset and liability. Transaction costs related to FVTPL securities are expensed as incurred. Transaction costs related to other financial instruments are included in the carrying value of the instrument and then amortized using the effective interest method over the expected life of the instrument. Financial assets held to maturity, loans and receivables and financial liabilities other than FVTPL assets and liabilities are measured at amortized cost using the effective interest rate method. Available for sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of or becomes impaired.

Conversion Liability Warrants

	Values
Balance September 30, 2017	\$ 262
Change in fair value	(167)
Balance September 30, 2018	\$ 95
Change in fair value	28
Balance March 31, 2019	\$ 123

9. Share capital

Capital

The Company considers its share capital to be shareholders' equity, which is comprised of share capital, contributed surplus, accumulated other comprehensive loss and accumulated deficit, in the amount of \$24,495,000 at March 31, 2019.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital, convertible debentures raised by way of private placements and debt instruments.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash, and short-term guarantee deposits, held with major Canadian and US financial institutions.

Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. The preferred shares issuable in series will have the rights, privileges, restrictions, and conditions assigned to the series upon the Board of Directors approving their issuance.

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Issued share capital

The Company has only one class of stock outstanding, common stock. Effective December 31, 2018, the Company consolidated its issued and outstanding common shares based on one post consolidation common share for every five pre-consolidation common shares.

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. Other comprehensive income represents items such as the change in equity arising from unrealized gains and losses from financial instruments designated as available-for-sale and changes in fair value of derivatives designated as cash flow hedges and is presented as a separate component of shareholders' equity on the Consolidated Statements of Financial Position. The Company does not currently participate in hedging activities and does not have any other comprehensive income.

Bought deals and private placement

On November 2, 2018, the Company completed a bought deal offering of 5,649,600 common shares of the Company at a price of \$0.6 per share for aggregate gross proceeds to the company of \$3,390,000. An issuance cost of \$370,000 was incurred. Along with this bought deal private placement, the Company also completed a previously announced non-brokered private placement of common shares of the Company at the issue price for gross proceeds to the Company of \$1,100,000. A total of 1,833,333 common shares of the Company were sold pursuant to the non-brokered private placement to officers and directors.

On March 7, 2019, the Company completed a bought deal offering 519,231 common shares (equal to 4.5% of aggregate number of common shares issuable by the company under the convertible debenture). These were issued at an exercise price of \$1.30 per common share for a period of 24 months from March 7, 2019.

The fair value of the equity warrants has been charged to the share capital and credited to contributed surplus over the proper vesting period, using the Black-Scholes option pricing model calculated using the following assumptions:

	Quarter ended March 31, 2019
Share price	\$0.60 - \$1.30
Risk-free interest rate	1.62% - 2.35%
Expected volatility	84.40% - 87.88%
Expected life of option	2 years
Expected dividend yield	Nil

Warrants outstanding and exercisable

As of the spin out date of December 21, 2017, the PHM warrants were ceased to represent the right to acquire PHM shares and they were replaced with New PHM warrants and Viemed warrants which will represent the right, upon exercise thereof, to acquire, the number of new PHM shares and Viemed shares, respectively, that a PHM warrant holder would have been entitled to receive. The exercise price of the new PHM share pursuant to the new PHM warrants will be equal to the exercise price of the applicable PHM warrant or PHM broker warrant in effect prior to the effective date multiplied by the new PHM exercise price ratio.

Year issued	Date of expiry	Type	Number of warrants (000's)	Weighted average exercise price (\$)
2014	27-Aug-19	Warrant	358	0.95
2019	02-Nov-20	Broker Warrant	367	0.60
2019	07-Mar-21	Broker Warrant	519	1.30

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Warrants Continuity Schedule

	Number of warrants (000's)	Weighted average exercise price
Balance September 30, 2017	5,201	\$ 8.45
Expired	(4,843)	(3.75)
Balance September 30, 2018	358	\$ 0.95
Issued	886	1.01
Balance March 31, 2019	1,244	\$ 0.99

(b) Options

The Company has a stock option plan, which it uses for grants to directors, officers, employees and consultants. Options granted under the plan are non-assignable and may be granted for a term not exceeding ten years. Stock options generally either vest immediately or annually over a three-year period.

A summary of stock options is provided below:

	Number of options (000's)	Weighted average exercise price
Balance September 30, 2017	3,812	\$ 2.590
Issued	13,563	0.550
Cancelled	(3,481)	2.590
Exercised	(280)	0.900
Forfeited	(3,810)	0.810
Balance September 30, 2018	9,804	\$ 0.450
Issued	940	0.684
Forfeited	(156)	0.364
Balance March 31, 2019	10,588	\$ 0.463

The Company had 107,792 of stock options forfeited during the three months ended March 31, 2019 with a weighted average exercise price of \$0.37.

As part of the Arrangement agreement, 3,481,000 options of the Company were cancelled, and 3,149,000 new options reissued. The Company determined that the fair value of new options issued was higher to the old options cancelled by \$459,000 and recorded it as stock-based compensation expense.

(d) Stock-based compensation

The Company accounts for stock-based compensation, including stock options, using the fair value method as prescribed by IFRS 2. Under this method, the fair value of stock options at the date of grant is amortized over the vesting period and the offsetting credit is recorded as an increase in contributed surplus.

For the three months ended March 31, 2019 and 2018, the Company recorded stock-based compensation expense of \$361,000 and \$1,225,000 respectively. For the six-month period ending March 31, 2019 and 2018, the Company recorded stock-based compensation expenses of \$891,000 and \$1,669,000 respectively. The amount of stock compensation expense for the six months

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ended March 31, 2018 includes a gain on fair market value of \$212,000 due to the issuance of new stock options related to the spin out transaction.

The fair value of the stock options has been charged to the statement of income and comprehensive income and credited to contributed surplus over the proper vesting period, using the Black-Scholes option pricing model calculated using the following assumptions:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Six Months Ended March 31, 2019	Six Months Ended March 31, 2018
Share price	\$0.90	N/A	\$.63 - \$.90	\$.072 - \$.714
Risk-free interest rate	1.67%	N/A	1.67 – 2.24%	1.66 – 1.96%
Expected volatility	84.70%	N/A	84.70 – 118.17%	70.11 – 118.84%
Expected life of option	2 years	N/A	2 – 10 years	1 – 10 years
Expected dividend yield	nil	N/A	Nil	Nil

10. Commitments and Contingencies

Operating Leases

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lesser of its fair value and the present value of the minimum lease payments. After initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. The associated lease liability is drawn down over the life of the lease by allocating a portion of each lease payment to the liability with the remainder being recognized as finance charges. Leases that do not transfer the risks and rewards of ownership to the Company are treated as operating leases and are expensed as incurred.

The Company leases certain facilities and medical equipment under the terms of non-cancelable operating leases. Future payments pursuant to these commitments are as follows:

Less than 1 year	\$	1,511
Between 1 and 4 years		2,158
Five years or more		36
Total	\$	3,705

Contingencies

The Company has been in litigation with Lightwater Long Short Fund for the years ended March 31, 2019 and 2018, respectively. The litigation is due to Lightwater claiming damages for matter related to subscription agreements in a private placement. The contingency related to the claim could be up to US \$500,000 but management and legal believe that this lawsuit is without merit and is unpredictable. It is uncertain currently to determine the outcome of this lawsuit or our potential liability, if any.

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11. Selling, general and administrative

	Three months ended		Six months ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Payroll & employee benefits	\$ 6,838	\$ 5,957	\$ 13,682	\$ 11,794
Facilities related expenses	866	974	1,833	1,994
Bad debt expense	1,549	2,371	2,892	5,283
Billing	438	354	864	646
Auto expense	274	281	631	446
Professional fees	480	501	816	946
Utilities	158	166	321	359
Patient acquisition	185	168	415	433
Office Expenses	208	147	408	404
Other	406	410	746	158
Total	\$ 11,402	\$ 11,329	\$ 22,608	\$ 22,463

12. Income (Loss) per share

Income (loss) per common share is calculated using the weighted average number of common shares outstanding during the period. Diluted income (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares by assuming the proceeds received from the exercise of stock options and warrants are used to purchase common shares at the prevailing market rate. There is no impact on diluted income (loss) per share because it is antidilutive. For the purpose of income (loss) per common share calculations, the exchangeable Class A common shares of a subsidiary are treated as though they were exchanged.

Income (loss) per share is based on the consolidated income (loss) for the quarter divided by the weighted average number of shares outstanding during the period. Diluted income (loss) per share is computed in accordance with the treasury stock method and based on the weighted average number of shares and dilutive share equivalents.

The following reflects the earnings and share data used in the basic and diluted income (loss) per share computations:

	Three months ended		Six months ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Net income (loss) after taxes for continued operations	\$ (530)	\$ (3,822)	\$ (396)	\$ 14,585
Net income (loss) after taxes for discontinued operations	-	-	-	4,205
Basic weighted average number of shares	82,176	75,819	82,176	75,299
Diluted weighted average number of shares	87,625	75,819	87,625	82,590
Basic -continuing operations	\$ (0.006)	\$ (0.050)	\$ (0.005)	\$ 0.194
Basic – discontinuing operations	0.000	0.000	0.000	0.056
Diluted – continuing operations	(0.006)	(0.050)	(0.005)	0.177
Diluted – discontinuing operations	0.000	0.000	0.000	0.051

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The outstanding warrants and stock options whose effect were anti-dilutive were excluded from the calculation of the above diluted income (loss) per share for the three and six months ended March 31, 2019 as well as the three months ended March 31, 2018.

13. Related party transactions

On October 1, 2015, the Company entered into a market rate, seven-year, four separate lease agreements for office/warehouse space and retail space with a rental company affiliated with the Company's Chief Executive Officer. There are four separate leases, for four different locations, with a combined area of approximately 61,820 sq. Ft. Rental payments under this lease agreement are approximately US \$43,000 per month, plus taxes, utilities and maintenance. The expense has been recorded as selling, general and administrative expenses.

Expenses of US \$42,500 and US \$16,000 related to the board bonus and fees were paid for three months ended March 31, 2019 and 2018, respectively. Expenses of US \$80,833 and US \$72,250 related to the board bonus and fees were paid for six months ended March 31, 2019 and 2018, respectively.

All transactions are at the exchange amount and any amounts outstanding are unsecured and non-interest bearing.

Management personnel also participate in the Company's share option program, see Note 9 to reference the compensation amount below. In addition to the above agreements, the Company paid or accrued key management personnel the following:

	Three months ended March 31, 2019	Three months ended March 31, 2018	Six months ended March 31, 2019	Six months ended March 31, 2018
Salaries and Benefits	\$ 766	\$ 193	\$ 1,009	\$ 385
Stock-Based Compensation	\$ 229	\$ 88	\$ 562	\$ 214
Total	\$ 995	\$ 281	\$ 1,570	\$ 599

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14. Discontinued Operations

On December 21, 2017 the Company received shareholder approval on the Asset and Share Purchase Agreements as well as an Arrangement Agreement with Viemed Healthcare, Inc. ("Viemed"). Please refer to Note 2 for the arrangement agreement that was settled.

As of December 31, 2017, the Viemed company's net income (loss) on discontinued operations, net of income taxes, is as follows:

	Three months ended December 31, 2017
Revenue	\$ 15,005
Cost of revenue	1,216
Gross margin	\$ 13,789
Expenses:	
Selling, general and administrative	8,055
Depreciation	815
Amortization	617
Goodwill and intangible Impairment	-
Other expense (income)	113
Income tax recovery	(16)
Net income (loss from discontinued operations)	\$ 4,205

15. Subsequent event

On May 6, 2019, the Company was subject to a cyberscam breach of its email system. The unlawful intrusion into one employee's account, discovered on May 3, 2019, led to fraudulent banking information being relayed regarding a planned wire transfer of CAD \$9.2 million toward the redemption of the Company's 7.5% non-convertible unsecured subordinated debentures issued in August 2014 (the "**Debentures**").

The Company has notified the appropriate authorities, is working with these authorities to support their investigations and is making all attempts to recover the funds. While the potential loss associated with this fraud is significant, the Company's financial position and operations are sound, and management is confident in its ability to continue to provide a high level of service to its clients. In this regard, the Company is pleased to be able to fully redeem the Debentures using a portion of its current cash on hand and US \$2.7mm to be loaned to the Company by the Company's CEO and Chairman (the "**Loan**"). The Loan will mature 24 months from closing and shall bear interest at a rate equal to the United States Prime Rate per annum from the date of issue, payable semi-annually in arrears on the last day of June and December in each year. The Loan will be secured by the assets of the Company and will be fully redeemable, without bonus or penalty, at any time by the Company.