



**UNAUDITED CONDENSED
CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF
KOVO HEALTHTECH CORPORATION**

**FOR THE THREE MONTHS ENDED
MARCH 31, 2024 AND MARCH 31, 2023**

Management's Comments on Unaudited Condensed Interim Condensed consolidated interim financial statements

The accompanying unaudited condensed interim condensed consolidated interim financial statements of Kovo HealthTech Corporation, for the three months ended March 31, 2024 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that the accompanying unaudited condensed interim condensed consolidated interim financial statements have not been reviewed by an auditor.

KOVO HEALTHTECH CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(All amounts expressed in thousands of US dollars, except share or per share amounts)

Consolidated Statements of Financial Position

| | Note | March 31, 2024 | December 31, 2023 |
|---|------|-------------------|-------------------|
| | | \$ | \$ |
| Assets | | | |
| Current | | | |
| Cash | | 393 | 102 |
| Accounts receivable | 4 | 148 | 252 |
| Other receivables and prepaid expenses | 4 | 139 | 98 |
| Current portion of promissory note receivable | 4 | 221 | 218 |
| | | \$ 901 | \$ 670 |
| Non-current | | | |
| Right-of-use assets | 5 | 207 | 250 |
| Property and equipment | | 23 | 32 |
| Intangible assets | 6 | 4,263 | 4,338 |
| Goodwill | | 3,967 | 3,967 |
| Total Non-Current Assets | | 8,460 | 8,587 |
| Total assets | | \$ 9,361 | \$ 9,257 |
| Liabilities and shareholders' equity | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | 3,378 | 3,172 |
| Short term debts | 7 | 5,613 | 3,524 |
| Current portion of lease liabilities | 8 | 122 | 151 |
| | | \$ 9,113 | \$ 6,847 |
| Non-current | | | |
| Long term debts | 7 | 2,217 | 2,227 |
| Deferred tax liability | | 374 | 374 |
| Lease liabilities | 8 | 95 | 108 |
| Total liabilities | | \$ 11,799 | \$ 9,556 |
| Shareholders' equity | | | |
| Share capital | 9 | 8,787 | 8,787 |
| Contributed surplus | 9 | 1,873 | 1,857 |
| Deficiency | | (13,098) | (10,943) |
| Total shareholders' equity | | \$ (2,438) | \$ (299) |
| Total liabilities and shareholders' equity | | \$ 9,361 | \$ 9,257 |

Nature of operations and going concern (Note 1)

Contingencies (Note 13)

Subsequent events (Note 14)

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

KOVO HEALTHTECH CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(All amounts expressed in thousands of US dollars, except share or per share amounts)

Consolidated Statements of Operations and Comprehensive Loss

| | Note | For the three months ended | |
|---|-------|----------------------------|-------------------|
| | | March 31, 2024 | March 31, 2023 |
| | | \$ | \$ |
| Revenue | | | |
| RCM revenue | | 2,371 | 1,607 |
| Inpatient systems | | 113 | 121 |
| Software revenue | | 40 | 52 |
| Credentialing Services | | 42 | 56 |
| Ambulatory software | | 41 | 47 |
| Hourly Services | | 49 | 47 |
| Total revenue | | \$ 2,656 | \$ 1,930 |
| Operating expenses | | | |
| Salaries and benefits | | 2,417 | 1,822 |
| General and administrative | 10 | 754 | 615 |
| Share-based compensation | 9 | 16 | 29 |
| Depreciation and amortization | 4,5,6 | 223 | 145 |
| Total operating expenses | | \$ 3,410 | \$ 2,611 |
| Net operating loss | | \$ (754) | \$ (681) |
| Other income (expense) | | | |
| Interest expense | | (541) | (178) |
| Financing charges | | (860) | - |
| Other income | | - | 1 |
| Net other expense | | \$ (1,401) | \$ (177) |
| Net loss before income tax | | (2,155) | (858) |
| Net loss and comprehensive loss | | \$ (2,155) | \$ (858) |
| Basic and diluted loss per share | 11 | (0.037) | (0.021) |
| Weighted average number of common shares outstanding basic and diluted | 11 | 57,543,906 | 39,943,906 |
| Weighted average number of common shares outstanding basic and diluted | 11 | 57,543,906 | 39,943,906 |

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

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Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

| | Note | Number of common shares outstanding | Share capital \$ | Contributed surplus \$ | Deficiency \$ | Total shareholders' deficiency \$ |
|---|------|--|---------------------|------------------------------|------------------|--|
| Balances as at December 31, 2022 | | 39,943,906 | 5,803 | 1,380 | (6,259) | 924 |
| Share-based compensation | 9 | - | - | 29 | - | 29 |
| Net loss and comprehensive loss | | - | - | - | (858) | (858) |
| Balances as at March 31, 2023 | | 39,943,906 | 5,803 | 1,409 | (7,117) | 95 |
| Balances as at December 31, 2023 | | 57,543,906 | 8,787 | 1,857 | (10,943) | (299) |
| Share-based compensation | 9 | - | - | 16 | - | 16 |
| Net loss and comprehensive loss | | - | - | - | (2,155) | (2,155) |
| Balances as at March 31, 2024 | | 57,543,906 | 8,787 | 1,873 | (13,098) | (2,438) |

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

KOVO HEALTHTECH CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(All amounts expressed in thousands of US dollars, except share or per share amounts)

Consolidated Statements of Cash Flows

| | For the three months ended | |
|---|-----------------------------------|-----------------------|
| | March 31, 2024 | March 31, 2023 |
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss and comprehensive loss | \$ (2,155) | \$ (858) |
| Adjustments for non-cash items: | | |
| Depreciation and amortization | 223 | 145 |
| Debt servicing costs | 860 | - |
| Interest expense | 1 | 44 |
| Accretion expense on lease liabilities | 6 | 5 |
| Share based compensation | 16 | 29 |
| Net change in working capital: | | |
| Accounts receivable | 104 | 10 |
| Other receivables | (41) | 9 |
| Accounts payable and accrued liabilities | 206 | 263 |
| Taxes payable | - | (9) |
| Contract liabilities | - | (2) |
| Net cash used in operating activities | \$ (780) | \$ (364) |
| INVESTING ACTIVITIES | | |
| Additions to capitalized software costs | (96) | (61) |
| Additions to property and equipment | - | (19) |
| Receipts on notes receivable | - | 2 |
| Net cash used in investing activities | \$ (96) | \$ (78) |
| FINANCING ACTIVITIES | | |
| Net receipts on debt | 1,250 | 250 |
| Net payments on debt | (34) | (72) |
| Lease payments | (48) | (35) |
| Net cash generated in financing activities | \$ 1,167 | \$ 143 |
| Net decrease in cash | 291 | (299) |
| Cash balance, beginning of the year | 102 | 692 |
| Cash balance, end of year | \$ 393 | \$ 393 |
| Supplemental information | | |
| Interest paid | (155) | (111) |

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Kovo HealthTech Corporation (“Kovo” or the “Company”) was incorporated in British Columbia, Canada on February 20, 2020. The Company’s head office is 1600 – 925 West Georgia Street, Vancouver, BC, V6C 3L2, Canada.

The Company sells services and software to medical clinics and medical facilities. There are six revenue streams generated through a combination of internal software development and acquisition of existing businesses and assets. The key business lines include:

- Recurring Revenue from Revenue Cycle Management Services (“RCM” revenue)
- Recurring licensing revenue from Inpatient systems
- Recurring SaaS revenue for Ambulatory software and eHealth software
- Recurring revenue from Credentialing Services
- Recurring revenue from Hourly Services
- Recurring revenue from associated services for our products (such as, electronic claim process, eligibility for reimbursement verifications, and electronic remittance advice)

Kovo is primarily engaged in delivering software solutions and services including Revenue Cycle Management (“RCM”) and Electronic Health Records to medical practices and hospitals. The Company acquires customers primarily through acquisition of existing RCM and other software businesses in the United States.

Going Concern

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. These condensed consolidated interim financial statements do not reflect the adjustments to carrying values of assets and liabilities that would be necessary should the going concern assumption prove to be inappropriate, and these adjustments could be material.

During the three months ended March 31, 2024, the Company incurred a loss from operations of \$754 (March 31, 2023 – loss of \$681), and a net loss of \$2,155 (March 31, 2023 - net loss of \$858) and cash used in operating activities of \$780. As at March 31, 2024, the Company had a working capital deficit of \$8,212 and an accumulated deficit of \$13,098. These factors create a material uncertainty that cast significant doubt regarding the Company’s ability to continue as a going concern. Management intends to finance its future development activities and operations from the sale of equity and debt securities. There is no assurance that the Company will be able to generate positive cash flows from operations or obtain additional financing on terms acceptable to the Company. Subsequent to the period ended March 31, 2024, but prior to the release of these condensed consolidated interim financial statements, the Company completed certain financing transactions, see Subsequent Event (*Note 14*). The Company’s ability to continue as a going concern is dependent upon the Company’s ability to raise sufficient financing or generate sufficient future cash flows from profitable business activities.

2. BASIS OF PRESENTATION, MEASUREMENT AND CONSOLIDATION

(a) Statement of Compliance

These condensed consolidated interim financial statements are unaudited. These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements should be read in conjunction with the December 31, 2023 annual consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. The preparation of these condensed consolidated interim financial statements is based on accounting principles and practices consistent with those used in the preparation of the December 31, 2023 annual consolidated financial statements.

2. BASIS OF PRESENTATION, MEASUREMENT AND CONSOLIDATION (continued)

These condensed consolidated interim financial statements were approved by the board of directors of the Company for issue on May 28, 2024.

(b) Basis of Measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis, with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below.

(c) Basis of Consolidation

The condensed consolidated interim financial statements include: the accounts of Kovo; Kovo's wholly owned subsidiaries, MedWorx Inc. (US Corporation) Kovo Acquisitions LLC (US Corporation) , and Kovo Human Capital LLC (US Corporation); MedWorx Inc.'s wholly owned subsidiaries, RPM Billing LLC (US Corporation), NOC5280 LLC (US Corporation) and); and Kovo Acquisitions LLC's operating businesses in the US including Midwest Medical Billing Services (US Corporation), The Cvikota Company, Inc. (US Corporation), E&A Medical Billing ("E&A") (US Corporation), and Kairos Billing Solutions LLC (US Corporation). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, are exposed to, or have rights to, variable returns from involvement with the entity and have the ability to affect those returns through power over the entity. The subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. Net loss and comprehensive loss of subsidiaries acquired during the period are recognized from the date of acquisition or effective date of disposal, as applicable. Significant intercompany balances and transactions are eliminated on consolidation.

(d) Segments

The condensed consolidated interim financial statements include one operating segment for the overall business. The operating results are regularly reviewed by the chief operating decision makers to determine decisions about resources and how they will be allocated to determine performance. At this time, management does not make decisions by revenue stream, but rather as an organization as a whole on a consolidated basis. Therefore, the condensed consolidated interim financial statements are presented as one operating segment.

(e) Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in US dollars ("USD"), which is also the functional currency of all subsidiaries.

The functional currency of the Company is determined to be the US dollar by management based on consideration of the currency and economic factors that primarily influence the Company's revenues and the costs of its business operation while the functional currency of the holding company is determined to be Canadian dollars.

Foreign currency transactions are recorded at the exchange rate as at the date of the transaction. At each statement of financial position date, any foreign currency denominated monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities in foreign currencies are translated using the historical rate. Gains and losses on transactions are included in the consolidated statements of operations and comprehensive loss.

2. BASIS OF PRESENTATION, MEASUREMENT AND CONSOLIDATION (continued)

(f) Use of Estimates and Judgements

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated year end financial statements and the reported revenues and expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation and judgment uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

(i) Estimates

Fair value measurement of non-interest-bearing debt

The Company has estimated, on initial recognition, the fair market value of certain debts that do not have a defined coupon rate, using a comparative interest rate for similar liabilities and a discounted cash flow to determine a reasonable present value. Additional details on debt are disclosed in Note 7.

Fair value measurement of stock options and warrants

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for stock options and warrants requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the stock options and warrants, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for stock options and warrants are disclosed in Note 9.

Going concern

The assumption that the Company will be able to continue as a going concern (refer Note 1) is subject to estimates and judgement by management including the Company's short and long-term operating budget, expected profitability, investing and financing activities, and management's strategic planning.

Useful life of capitalized software costs

The Company assumed that its software capital asset had a useful life of three years. The Company based this value on the average cycle of software upgrades and changes made to its software platform utilized by its clients. The useful life was estimated based on management's numerous years in the software business line and typical trend of software upgrades required.

Goodwill, intangible assets and related impairment

Management is required to use judgement in determining the economic useful lives of identifiable intangible assets. Judgement is also required to determine the frequency with which these assets are to be tested for impairment. The Company uses judgment in determining the grouping of assets to identify its Cash Generating Units ("CGUs") for purposes of testing for impairment of intangible assets and goodwill. In testing for impairment, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination. In testing for impairment of intangibles with indefinite lives, these assets are allocated to the CGUs to which they relate.

2. BASIS OF PRESENTATION, MEASUREMENT AND CONSOLIDATION (continued)

Future cash flows are estimated based on multiyear extrapolation of the most recent budgets and a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on Management's estimate of the growth rate specific to the CGU being tested. The future cash flow estimates are then discounted to their present value using an appropriate discount rate that incorporates a risk premium specific to each business. The Company's determination of a CGU's recoverable amount based on fair value less cost to sell uses factors such as royalty rates for comparable assets. The Company's intangible assets consist of customer relationships, of which arose from business combinations.

(ii) Accounting judgements

Income taxes

The Company recognizes the tax benefit from an uncertain tax position only if it is probable that the tax position will be sustained based on its technical merits. The Company measures and records the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute limitations for examination expires, or when additional information becomes available. The Company's liability for unrecognized tax benefits requires the use of assumptions and significant judgment to estimate the exposures associated with our various filing positions.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially such differences will affect the tax provisions in the period in which such determination is made.

Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect our effective income tax rate and income tax provision.

Leases

Leases require lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If the rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leases assets is not available. The Company determines the incremental borrowing rate as the interest rate of the Company would pay to borrow over a similar economic environment. The weighted average rate applied was 9% per annum. Leases require lessees to estimate the lease term. In determining the period in which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Consolidation

The Company uses judgment in determining the entities that it controls and consolidates accordingly. An entity is controlled when the Company has power over an entity, exposure or rights to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its return from the entity. The Company has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, which are the activities that significantly affect the investee's returns. Since power comes from rights, power can result from contractual arrangements. However, certain contractual arrangements contain rights that are designed to protect the Company's interest, without giving it power over the entity.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed interim condensed consolidated interim financial statements are the same as those applied in the Company's annual condensed consolidated interim financial statements for the year ended December 31, 2023. In the period ended March 31, 2024, the Company has not early adopted any standard, interpretation, or amendment.

4. CAPITAL MANAGEMENT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital management

The Company's objectives when managing its capital are:

- To maintain a flexible capital structure that optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
- To maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- To safeguard the Company's ability to obtain financing should the need arise; and
- To maintain financial flexibility in order to have access to capital in the event of future capital acquisitions.

The Company is exposed to various financial risks and continuously assesses the impact and likelihood of this exposure. These risks include credit risk, liquidity risk, market risk including currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, and in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital to consist of total equity. The Company is not subject to externally imposed capital requirements.

Financial Risks

a) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, accounts receivable and a promissory note receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

There is no concentration risk for accounts receivables as no one customer represents greater than 10% of the Company's total sales. The Company evaluates credit losses on a regular basis based on the aging and collectability of its receivables. As at March 31, 2024, the Company had an allowance for doubtful accounts balance of \$82 (March 31, 2023 - \$54).

On November 1, 2022, the Company entered into a two-year IP licensing agreement of which \$24 is included in accounts receivable (March 31, 2023 - \$149) and \$nil in long term accounts receivable (March 31, 2023 - \$24).

On November 8, 2021, the Company amended the terms of a non-interest bearing secured promissory note receivable with the Companies Executive Chairman which was originally issued January 21, 2021, extending the due date from February 5, 2022 to February 15, 2024. The new agreement contains fixed monthly payments for 24 periods effective November 15, 2021. The note is being serviced month-to-month at this time until a long term solution is resolved. Given that the loan is interest free and long term, the Company discounted the promissory note receivable at a market interest rate of 9% resulting in a financing expense of \$40 to be accreted over the term of the loan. As of March 31, 2024, \$220 (March 31, 2023 - \$209) was included in current portion of promissory note receivable and \$nil (March 31, 2023 - \$nil) in non-current portion promissory note receivable and \$3 (March 31, 2023 - \$5) being included in interest income.

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4. CAPITAL MANAGEMENT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The following table provides information regarding the aged trading receivables:

| | Current | 31-60 days | 61-90 days | 91+ days |
|----------------|---------|------------|------------|----------|
| March 31, 2024 | 38% | 0% | 2% | 60% |
| March 31, 2023 | 14% | 18% | 13% | 55% |

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and remain solvent. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

To date, the Company has generated operating losses and net cash outflows from operations (Note 1), and has relied on equity to fund its operations and acquisitions and will need to continue to secure additional funding for operations (Note 7). Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that financing will be on terms advantageous to the Company.

The following table sets out the Company's contractual maturities (representing undiscounted contractual cash flows) of financial liabilities and commitments:

| | 12 months | 1 to 2 years | 3 to 5 years | Thereafter | Total |
|--|-----------|--------------|--------------|------------|--------|
| | \$ | \$ | \$ | \$ | \$ |
| Accounts payable and accrued liabilities | 3,378 | - | - | - | 3,378 |
| Debts | 5,696 | 118 | 237 | 2,921 | 8,972 |
| Lease liabilities | 139 | 68 | 30 | - | 237 |
| | 9,213 | 186 | 267 | 2,921 | 12,587 |

c) Interest 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 has one debt instrument subject to variable interest rates (Note 7). If the interest rates were to increase substantially that would have a negative impact on the Company cash reserves and debt instruments. If the interest rates were to fluctuate by 1%, based on a weighted average cost of interest, the impact on interest expense incurred by the Company for the three months ended March 31, 2024 would be \$1 (March 31, 2023 - \$4). The Company monitors the American prime interest rate carefully and ensures any significant increases would be mitigated through sufficient cash on hand, raising additional capital or renegotiating terms with the debt underwriter.

d) Currency risk

Currency risk is the risk that the fair value or future cash flows of the Company's financial instrument that are denominated in a currency that is not the Company's functional currency will fluctuate due to the change in foreign exchange rate. The Company is exposed to the currency exchange rate risk on the following balances held in Canadian dollars:

| | March 31, 2024 |
|--|----------------|
| | \$ |
| Cash | 3 |
| Notes and other receivables | 48 |
| Accounts payable and accrued liabilities | 168 |

The Company does not use derivative financial instruments to mitigate its exposure to currency risk. Management, however, mitigates currency risk by regular monitoring, transacting in stable currencies, matching the foreign currency receivables and payables and minimizing the net exposure in any foreign currency at any point of time. A 100 basis points change in the value of the Canadian currency will result in the increase/decrease in the Company's net loss of \$2 (March 31, 2023 - net loss of \$5).

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(All amounts expressed in thousands of US dollars, except number of shares or per share amounts)

5. RIGHT-OF-USE ASSETS

| | ROU Assets | |
|--|-------------------|------------|
| Cost | | |
| Balances as at Dec 31, 2023 | \$ | 765 |
| <u>Additions</u> | | - |
| Balances as at March 31, 2024 | \$ | 765 |
| Accumulated Depreciation | | |
| Balances as at Dec 31, 2023 | \$ | (515) |
| <u>Amortization</u> | \$ | (43) |
| Balances as at March 31, 2024 | \$ | (558) |
| Net Book Values as at December 31, 2023 | \$ | 250 |
| Net Book Values as at March 31, 2024 | \$ | 207 |

The right-of-use assets represent an operating lease for the data center and office leases, all of which are utilized by the Company as at the reporting period (Note 8).

The Company acquired E&A, effective on April 20, 2023. As part of the acquisition the Company obtained the rights to use to and obligation connected with an office lease in Phoenix, Arizona.

For the period ended March 31, 2024, the Company notes that it also recorded additional depreciation in the amount of \$9 (March 31, 2023: \$13) related to computer equipment, ERP implementation fees and company websites.

6. INTANGIBLE ASSETS

| | Intangible Assets | | | | |
|--|----------------------------------|-----------------------|------------------|-----------------|-----------------|
| | Intellectual Property | Customer Lists | Tradename | Software | Total |
| Cost | | | | | |
| Balances as at December 31, 2023 | \$ 458 | \$ 4,186 | \$ 310 | \$ 1,347 | \$ 6,301 |
| <u>Additions</u> | \$ - | \$ - | \$ - | \$ 96 | \$ 96 |
| Balances as at March 31, 2024 | \$ 458 | \$ 4,186 | \$ 310 | \$ 1,443 | \$ 6,397 |
| Accumulated Amortization | | | | | |
| Balances as at December 31, 2023 | \$ (458) | \$ (618) | \$ (47) | \$ (840) | \$ (1,963) |
| <u>Amortization</u> | \$ - | \$ (86) | \$ (16) | \$ (69) | \$ (171) |
| Balances as at March 31, 2024 | \$ (458) | \$ (704) | \$ (63) | \$ (909) | \$ (2,134) |
| Net carrying amount as at December 31, 2022 | \$ - | \$ 3,568 | \$ 263 | \$ 507 | \$ 4,338 |
| Net carrying amount as at March 31, 2024 | \$ - | \$ 3,482 | \$ 247 | \$ 534 | \$ 4,263 |

Software licenses are capitalized as part of the Company's review of IAS 38 guidelines. The Company capitalizes 50% of its software development salaries and amortizes them over a 36-month period. The Company completes an impairment analysis to ensure the carrying value is supported by the revenue generated from the software licenses. Other intangible assets include customer relationships acquired as part of the following acquisitions namely RPM, Midwest, Cvikota, E&A Medical Billing, and Kairos. Customer relationships are recorded at the fair value as at the time of the acquisition and amortized over ten to fifteen years on a prorated basis.

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7. DEBTS

Principle balances as at March 31, 2024

| Short Term Debt | Interest Rate | Principle Balance 03/31/2024 | Interest Rate | Principle Balance 03/31/2023 |
|--|----------------------|-------------------------------------|----------------------|-------------------------------------|
| Avonlea Debt | 12.00% | \$ 5,160 | 0.00% | \$ - |
| Promissory Note to Curt Cvikota | 5.00% | \$ 340 | 5.00% | \$ 343 |
| Tech-Time Debts | 10.25% | \$ 73 | 10.25% | \$ 89 |
| EIDL Loan | 3.75% | \$ 40 | 3.75% | \$ 38 |
| Paypal Working Capital Loan | 0.00% | \$ - | 25.40% | \$ 56 |
| Small Business Administration Loan 1 | 0.00% | \$ - | 10.25% | \$ 60 |
| Funding Circle Loan | 0.00% | \$ - | 15.82% | \$ 28 |
| Small Business Administration Loan 2 | 0.00% | \$ - | 10.25% | \$ 32 |
| Small Business Administration Loan 3 | 0.00% | \$ - | 10.25% | \$ 7 |
| Short Term Debt/ Weighted Average Interest Rate | 11.49% | \$ 5,613 | 8.65% | \$ 653 |

| Long Term Debt | Interest Rate | Principle Balance 03/31/2024 | Interest Rate | Principle Balance 03/31/2023 |
|---|----------------------|-------------------------------------|----------------------|-------------------------------------|
| EIDL Loan | 3.75% | \$ 1,967 | 3.75% | \$ 2,007 |
| Health Cell | 8.00% | \$ 250 | 8.00% | \$ 250 |
| Flow Capital Acquisition Line | 0.00% | \$ - | 16.00% | \$ 1,288 |
| Promissory Note to Curt Cvikota | 0.00% | \$ - | 5.00% | \$ 333 |
| Hingwala Convertible Debt | 0.00% | \$ - | 25.00% | \$ 236 |
| Small Business Administration Loan 2 | 0.00% | \$ - | 10.25% | \$ 149 |
| Tech-Time Debts | 0.00% | \$ - | 10.25% | \$ 73 |
| Small Business Administration Loan 1 | 0.00% | \$ - | 10.25% | \$ 87 |
| Funding Circle Loan | 0.00% | \$ - | 15.82% | \$ - |
| Small Business Administration Loan 3 | 0.00% | \$ - | 10.25% | \$ 39 |
| Long Term Debt/ Weighted Average Interest Rate | 4.23% | \$ 2,217 | 9.25% | \$ 4,462 |

| | | | | |
|--|--------------|-----------------|--------------|-----------------|
| Total Debt/ Weighted Average Interest Rate | 9.44% | \$ 7,830 | 9.17% | \$ 5,115 |
| Weighted Average Interest Rate Increase for 100bp | 0.02% | | 0.12% | |

Short Term Debt

Avonlea Loan

During 2023, the Company received \$3,050 in three tranches under a senior loan and security agreement with Avonlea Ventures #2 Inc., bearing interest at a rate of 12% per annum accrued monthly. The Company can obtain funds up to \$7,000 and has a maturity date of April 30, 2024. On February 27, 2024, the Company entered into a forbearance agreement with Avonlea Ventures #2 Inc. (the "Lender"), in connection with the senior loan and security agreement (the "Agreement") entered on April 20, 2023. Pursuant to the forbearance agreement, the Lender advanced an additional \$1,250 under the Agreement and agreed to forbear any enforcement steps as a consequence of any breach or default under the Agreement until June 30, 2024, subject to the condition that management delivers a 2024 operating plan acceptable to the Lender, with a forbearance fee equal to \$860, 20% per annum of the total outstanding balance as at the date of the forbearance agreement. The Company has accrued an additional \$380 during the three months ended March 31, 2024 for the anticipated default interest on the debt. Subsequent to the period ended March 31, 2024, but prior to the release of these condensed consolidated interim financial statements, the Company completed certain financing transactions with Avonlea, see Subsequent Event (*Note 14*).

Funds from the first tranche were received on April 20, 2023, in the amount of \$2,700 in relation so the E&A acquisition. Funds from the second tranche were received on June 2, 2023, in the amount of \$313 in relation to the Kairos acquisition. Funds from the third tranche were received on December 6, 2023, in the amount of \$37. Funds from the fourth tranche were received on February 29, 2024 in the amount of \$1,250. The principal and any unpaid interest are due at the maturity date. The loan is secured by all of the Company's assets.

7. DEBTS (continued)

Promissory Note to Curt Cvikota

On November 1, 2021, the Company acquired the assets of The Cvikota Company and as part of the consideration issued a non-secured promissory note for \$688, with interest at the rate of 5% per annum. The principal of the note shall be due as to one-half on November 1, 2022 and the remaining half on November 1, 2023. On February 13, 2023 the Promissory Note to Curt Cvikota was amended so that the First Principal payment is due on November 1, 2023 and the Second Principal payment is due on November 1, 2024. As of March 31, 2024, the balance was \$340 (December 31, 2021 - \$339), of which \$340 was included in short term debts and a balance of nil was included in long term debt.

Tech-Time Debts

The Company committed to a non-interest-bearing consulting contract with the former president of Tech-Time to provide Kovo Inc. (formerly MedWorx Inc.) services totaling \$778 starting June 2, 2015, which would pay the president of Tech-Time \$8 per month until the contract was fulfilled. For accounting purposes, the consulting contract has been treated as a contractual obligation and financial instrument. The Company has discounted the contract as of December 31, 2022 using an imputed interest rate similar to a Small Business Administration (“SBA”) loan, which as of March 31, 2024 was 10.25% per annum (December 31, 2023 – 10.25% per annum) and assumes a maturity of November 30, 2024. Based on these discount factors, the fair value calculated as at March 31, 2024 was \$73 (December 31, 2023 - \$96) of which \$73 was included in short term debts and nil was included in long term debts.

Long Term Debt

EIDL loan

On June 8, 2020, the Company received \$150 and on April 26, 2022, the Company received an additional amount of \$1,850, for a total of \$2,000, from the U.S. Small Business Administration (“SBA”) under the Economic Injury Disaster Loan (“EIDL”) program administered by the SBA, which program was expanded pursuant to the CARES Act. EIDL is designed to provide economic relief to businesses that are currently experiencing a temporary loss of revenue. EIDL proceeds can be used to cover a wide array of working capital and normal operating expenses, such as continuation to health care benefits, rent, utilities, and fixed debt payments.

The loan carries an interest rate of 3.75% per annum and is amortized over 30 years, with the first payment due 30 months after the loan origination date, accruing interest until payments commence. The Company incurred \$20 in interest expense during the three months ended March 31, 2024 (March 31, 2023 - \$20). As of March 31, 2024, the balance was \$2,007 (December 31, 2023 - \$2,016), of which \$40 was included in short term debt and \$1,967 included in long term debt.

Healthcell Promissory Note

On February 1, 2023, the Company received a promissory note from HealthCell LLC in the amount of \$250 with a three-year term. The Company is to make interest only payments, at 8% per annum, starting February 1, 2023, and repay the principal balance in full on February 1, 2026. As of December 31, 2023, the outstanding balance was \$250.

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7. DEBTS (continued)

Scheduled repayments of all short-term debt, long term debt are as follows:

| | \$ |
|--------------------------|---------|
| 2024 | 5,667 |
| 2025 | 118 |
| 2026 | 368 |
| 2027 | 118 |
| Thereafter | 2,951 |
| Less: effective interest | (1,392) |
| | 7,830 |

8. LEASE LIABILITIES

The Company leases office spaces and a data center. The following table presents the lease obligations of the Company:

| | March 31, 2024 |
|---|-------------------|
| Beginning balance as of January 1, 2024 | \$ 259 |
| Additions | - |
| Payment of lease obligations | (48) |
| Interest expense on lease obligations | 6 |
| Ending Balance as of March 31, 2024 | \$ 217 |

The following table presents an analysis of the contractual undiscounted cash flows from lease obligations:

| | March 31, 2024 |
|---|-------------------|
| Maturity analysis – contractual undiscounted cash flows | |
| Less than one year | \$ 139 |
| One to five years | 98 |
| Total undiscounted lease obligations | \$ 237 |
| Lease obligations | \$ 217 |
| Current portion | \$ 122 |
| Non-current portion | \$ 95 |

Leases greater than one year were capitalized as right-of-use assets (Note 5). As of March 31, 2024, the Company has three active lease agreements. Two of which were office leases obtained as part of its acquisition of Cvikota, both ending on October 31, 2024. The third lease agreement has a lease term greater than a year used for office space obtained as part of the E&A acquisition, this lease ends on September 30, 2026.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate. The weighted-average rate applied was 10.9%.

9. SHARE CAPITAL

Common Shares

The Company has authorized share capital of unlimited common shares without par value.

For the three months ended March 31, 2024:

There was no common share activity during the three months ended March 31, 2024. As at March 31, 2024, the Company had 57,543,906 common shares outstanding (December 31, 2023 – 57,543,906 common shares outstanding).

For the three months ended March 31, 2023:

There was no common share activity during the three months ended March 31, 2023. As at March 31, 2023, the Company had 39,943,906 common shares outstanding (December 31, 2022 – 39,943,906 common shares outstanding).

Incentive Plans

The Company has adopted a Stock Option Plan (“SOP”) under which it is authorized to grant stock options (“Options”) to officers, directors, employees and consultants enabling them to acquire common shares of the Company. The Company has also adopted a Restricted Share Unit Plan (“RSU Plan”) under which it is authorized to grant restricted share units (“RSUs” and, together with Options, “Awards”) to officers, directors, employees and consultants enabling them to acquire common shares of the Company. The maximum number of common shares reserved for issuance of Awards that may be granted under the plan is 10% of the issued and outstanding common shares of the Company.

The stock option activity for the period were as follows:

| | Number of Options | Weighted Average |
|---|--------------------------|-------------------------|
| As at December 31, 2023 | 3,135,882 \$ | 0.32 |
| Forfeited | (25,000) \$ | 0.12 |
| Exercised | - \$ | - |
| <u>Outstanding as at March 31, 2024</u> | <u>3,110,882 \$</u> | <u>0.32</u> |
| Exercisable as at March 31, 2024 | 3,025,469 \$ | 0.29 |

As of March 31, 2024, the Company had the following stock options outstanding:

| | Exercise Price | Number of options outstanding | Weighted average remaining life (months) |
|------------|-----------------------|--------------------------------------|---|
| 2024-11-22 | \$ 0.39 | 350,000 | 8 |
| 2025-02-25 | \$ 0.15 | 2,055,882 | 48 |
| 2026-07-01 | \$ 0.62 | 500,000 | 27 |
| 2031-03-03 | \$ 0.73 | 105,000 | 83 |
| 2032-01-01 | \$ 0.31 | 100,000 | 93 |
| | | <u>3,110,882</u> | <u>43</u> |

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9. SHARE CAPITAL (continued)

During the three months ended March 31, 2024, the Company issues no options to staff and recorded \$16 (March 31, 2023 - \$29) in share-based compensation of which \$nil related to issuance of restricted stock units.

The compensation expenses were based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions for the three months ended March 31, 2024 and 2023:

Warrants

A summary of all warrants issued is as follows:

| | Warrants Outstanding | Weighted average exercise price | Fair Value per Share |
|---------------------------|---------------------------------|--|-----------------------------|
| Balance December 31, 2023 | 14,080,506 | \$0.467 | |
| Issued | - | - | - |
| Expired | - | - | - |
| Balance March 31, 2024 | 14,080,506 | \$0.467 | |

10. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the three months ended March 31, 2024 and 2023:

| | For the three months ended | |
|--|-----------------------------------|-----------------------|
| | March 31, 2024 | March 31, 2023 |
| | \$ | \$ |
| Professional expenses | 271 | 291 |
| Software & IT | 83 | 76 |
| Public company expenses | 82 | 60 |
| Office expenses | 124 | 113 |
| Processing fees | 186 | 49 |
| Other general and administrative | 9 | 26 |
| General and administrative expenses | 754 | 615 |

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11. LOSS PER SHARE

The weighted average number of shares includes common shares. The effect of adjustments to the weighted average number of common shares would be anti-dilutive when the Company incurs losses.

The calculation of basic and diluted loss per share for the years ended was based on the information in the table below.

| <i>(Expressed in thousands of US dollars, except share and per share amounts)</i> | For the three months ended | |
|---|-----------------------------------|-----------------------|
| | March 31, 2024 | March 31, 2023 |
| | \$ | \$ |
| Basic weighted average number of shares outstanding - opening balance | 57,543,906 | 39,943,906 |
| Basic weighted average number of shares outstanding - ending balance | 57,543,906 | 39,943,906 |
| Dilutive weighted average number of shares outstanding | 57,543,906 | 39,943,906 |
| Net loss for the period | \$ (2,155) | \$ (858) |
| Weighted average basic loss per share | \$ (0.037) | \$ (0.021) |
| Weighted average diluted loss per share | \$ (0.037) | \$ (0.021) |

12. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. In addition to short-term employee benefits, the Company may also issue RSUs or options as part of the stock option plan. Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly.

For the three months ended March 31, 2024, key management personnel compensation comprising of salaries and equity totaled \$164 (three months ended March 31, 2023 - \$137).

13. CONTINGENCIES

From time to time, the Company may be involved in various litigation matters, which arise in the ordinary course of business. There is currently one litigation that management believes will have a material impact on the financial position of the Company. As a result, the Company has an accrual of \$385 as of March 31, 2024. The litigation is in relation to a wrongful termination claim between the Company and one of its previous executive staff.

14. SUBSEQUENT EVENTS

Subsequent to the three months ended March 31, 2024, but prior to the release of these condensed consolidated interim financial statements, the following events occurred:

On April 23, 2024, a new agreement was reached between the Company and Avonlea Ventures #2 Inc. (AVI), a company controlled by Mr. Michael Steele, a director of the Corporation and its affiliates, granting a temporary waiver of the default under the Forbearance Agreement until May 20, 2024, allowing the Company and AVI to work collaboratively and build a jointly acceptable operating plan. Avonlea has also agreed to provide a further credit extension of \$500 under specified terms in which Avonlea has charged a 10% or \$50 one-time fee. Additionally, the Company will be charged an additional fee equal to 1% per month of the aggregate indebtedness owed to AVI on top of the 12% interest rate and in addition to any forbearance fees. Interest payments will be waived until June 30, 2024. These measures further strengthen our financial position as the Company works with its Lenders to strengthen the Company's financial position.

On May 22, 2024 the Company entered into a shares for debt agreement with AVI. The transaction forms part of a larger restructuring of the Corporation's debt. Pursuant to the Shares for Debt Agreement, the Company's outstanding indebtedness to AVI, will be reduced by an aggregate of CDN\$2,257 (USD\$1,657) through the conversion of such outstanding indebtedness into common shares in the capital of the Corporation, at a deemed issue price per Common Share equal to CDN\$0.035 in respect of 57,543,906 Common Shares and CDN\$0.05 in respect of 4,863,861 Common Shares.

Following the Debt Conversion Transaction, and AVI's agreement to reduce a portion of fees owing to it, the Company will continue to owe approximately USD\$4,340 to AVI under the senior loan and security agreement dated as of April 20, 2023, as amended pursuant to a forbearance agreement dated February 27, 2024 and pursuant to a letter agreement April 23, 2024. In connection with the Debt Conversion Transaction, AVI and the Corporation have agreed to amend and restate to the Loan Agreement to extend the maturity date of the Remaining Indebtedness to April 30, 2025 and provide AVI with the right to convert the Remaining Indebtedness into Common Shares at a fixed price of CDN\$0.05 per share and at the prevailing market price in respect of future interest in accordance with TSX Venture Exchange policies. Upon final TSX Venture Exchange acceptance, the Forbearance Agreement will terminate, and the Corporation will no longer be subject to the default interest rate provided for in the Loan Agreement. Upon TSX approval, the Company will be able to make future draws up to \$2,700 from the USD \$7,000 limit for acquisitions and working capital purposes.

In aggregate, a total of 62,407,767 Common Shares will be issued by the Corporation pursuant to the Debt Conversion Transaction all of which will be owned or controlled, directly or indirectly, by AVI. Following the issuance of the Settlement Shares, the Corporation will have 119,951,673 Common Shares issued and outstanding and AVI will own or control, directly or indirectly, 80,007,767 Common Shares, 8,800,000 warrants to acquire Common Shares (having an expiry date of April 20, 2025 and an exercise price of CDN\$0.40 per share) and the right to acquire additional Common Shares pursuant to the Additional Conversion Right (which, on the date hereof, would represent a right to acquire an additional 118,179,262 Common Shares at CDN\$0.05 per share, based on the amount of the Remaining Indebtedness and the CAD/US exchange ratio in effect as of May 20, 2024), representing approximately 66.7% of the total issued and outstanding Common Shares on a non-diluted basis and 83.8% of the outstanding shares on a partially diluted basis (assuming the exercise of such warrants and the Additional Conversion Right). AVI was previously approved by the shareholders of the Company as a new "Control Person" in connection with the private placement announced in the Corporation's press release dated April 21, 2023.

On May 29, 2024, the Company and AVI entered into a letter agreement (the "May 29 Letter") which, amongst other things will further amend the amended and restated Loan Agreement made May 20, 2024 upon satisfaction of certain conditions. The May 29 letter, which remains subject to acceptance of the TSXV, provides for an additional advance of \$2,100, allocated \$1,000 to payables and working capital, and \$1,100 to an acquisition, and an agreement that the Additional Conversion Right will not apply to lender fees. (The description above of AVI's share entitlement on exercise of the Additional Conversion Right does not include adjustments that will follow from the May 29 Letter, if accepted.)