

## Notice to Reader

The unaudited condensed consolidated interim financial statements for the three months ended December 31, 2021 and 2020 are being refiled now that they have been reviewed by the Company's auditor. Accordingly, apart from the removal of the Notice of No Auditor Review, no other changes were made to the information initially filed,



**Quipt Home Medical Corp.**  
*(Formerly, Protech Home Medical Corp.)*

**Amended Condensed Consolidated Interim Financial Statements**

**2022 First Quarter**

For the three months ended  
December 31, 2021 and 2020  
(UNAUDITED)

(Expressed in US Dollars)

## TABLE OF CONTENTS

Amended Condensed Consolidated Interim Statements of Financial Position	Page 1
Amended Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)	Page 2
Amended Condensed Consolidated Interim Statements of Changes in Shareholders' Equity	Page 3
Amended Condensed Consolidated Interim Statements of Cash Flows	Page 4
Amended Notes to the Condensed Consolidated Interim Financial Statements	Pages 5-30

**Quipt Home Medical Corp. (formerly, Protech Home Medical Corp.)**  
**AMENDED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**(UNAUDITED)**

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

	Notes	As at December 31, 2021	As at September 30, 2021
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 30,089	\$ 34,612
Accounts receivable, net	4	10,453	11,938
Inventory	5	9,846	9,253
Prepaid and other current assets		2,043	1,430
<b>Total current assets</b>		<b>52,431</b>	<b>57,233</b>
<b>Long-term assets</b>			
Property, equipment, and right of use assets, net	6	24,404	23,506
Goodwill	7	15,654	12,456
Intangible assets, net	7	14,427	14,874
Deferred financing costs	11	381	416
Deposits		79	88
<b>Total long-term assets</b>		<b>54,945</b>	<b>51,340</b>
<b>TOTAL ASSETS</b>		<b>\$ 107,376</b>	<b>\$ 108,573</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable		\$ 9,570	\$ 9,842
Accrued liabilities		1,961	3,202
Current portion of equipment loans	11	6,303	6,992
Current portion of leases	11	2,819	2,981
Government grant	8	4,885	4,885
Deferred revenue	9	2,387	2,452
Purchase price payable	3	2,949	2,383
<b>Total current liabilities</b>		<b>30,874</b>	<b>32,737</b>
<b>Long-term Liabilities</b>			
Debentures	11	12,102	11,784
Equipment loans	11	312	392
Lease liabilities	11	5,232	4,784
SBA Loan	11	121	121
Long-term purchase price payable	3	133	133
<b>TOTAL LIABILITIES</b>		<b>48,774</b>	<b>49,951</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	12	202,829	202,827
Contributed surplus		23,111	21,001
Shares to be issued	3	657	657
Accumulated deficit		(167,995)	(165,863)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>58,602</b>	<b>58,622</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 107,376</b>	<b>\$ 108,573</b>

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

**Quipt Home Medical Corp. (formerly, Protech Home Medical Corp.)**  
**AMENDED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND**  
**COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**

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

	Notes	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020
<b>Revenue</b>			
Rentals of medical equipment		\$ 14,982	\$ 12,353
Sales of medical equipment and supplies		14,543	10,402
<b>Total revenues</b>		<b>29,525</b>	<b>22,755</b>
Cost of inventory sold		7,659	6,071
Operating expenses	14	15,826	11,529
Depreciation	6	4,566	3,366
Amortization of intangible assets	7	447	315
Stock-based compensation	12	2,110	15
Acquisition-related costs	3	62	56
(Gain) loss on disposal of property and equipment		35	(27)
<b>Operating income (loss) from continuing operations</b>		<b>(1,180)</b>	<b>1,430</b>
<b>Financing expenses</b>			
Interest expense on convertible debenture		174	230
Interest expense on leases	11	168	125
Interest expense on loans	11	99	85
Interest expense on revolver		13	12
Amortization of financing costs	11	35	34
Other interest expense, net		12	—
Loss on foreign currency transactions		41	2
Change in fair value of warrants		—	348
Change in fair value of debentures	11	261	635
<b>Income (loss) before taxes from continuing operations</b>		<b>(1,983)</b>	<b>(41)</b>
Provision for income taxes		148	(1,407)
<b>Net income (loss)</b>		<b>\$ (2,131)</b>	<b>\$ 1,366</b>
<b>Net income (loss) per share (Note 15)</b>			
Basic earnings (loss) per share		\$ (0.06)	\$ 0.05
Diluted earnings (loss) per share		\$ (0.06)	\$ 0.04
<b>Weighted average number of common shares outstanding:</b>			
Basic		33,346	28,177
Diluted		33,346	30,466

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**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN**  
**SHAREHOLDERS'**  
**EQUITY (UNAUDITED)**

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

	Notes	Number of Shares (000's)	Capital stock	Contributed surplus	Shares to be Issued	Accumulated Deficit	Total shareholders' equity
Balance September 30, 2020		28,069	171,405	16,519	—	(159,689)	\$ 28,235
Net income		—	—	—	—	1,366	1,366
Stock-based compensation	12	—	—	15	—	—	15
Exercise of warrants, including transfer of derivative warrant liability of \$35	12	29	177	—	—	—	177
Shares to be issued for acquisition		—	—	—	3,033	—	3,033
Compensation options exercised	12	104	523	(108)	—	—	415
Stock options exercised	12	15	85	(40)	—	—	45
Balance December 31, 2020		<u>28,217</u>	<u>\$ 172,190</u>	<u>\$ 16,386</u>	<u>\$ 3,033</u>	<u>\$ (158,323)</u>	<u>\$ 33,286</u>
Balance September 30, 2021		33,350	\$ 202,827	\$ 21,001	\$ 657	\$ (165,863)	\$ 58,622
Net loss		—	—	—	—	(2,132)	(2,132)
Stock options exercised	12	4	2	—	—	—	2
Stock-based compensation	12	—	—	2,110	—	—	2,110
Balance December 31, 2021		<u>33,354</u>	<u>\$ 202,829</u>	<u>\$ 23,111</u>	<u>\$ 657</u>	<u>\$ (167,995)</u>	<u>\$ 58,602</u>

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**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)**

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

	Notes	Three months ended December 31, 2021	Three months ended December 31, 2020
<b>Operating activities</b>			
Income (loss) from continuing operations		\$ (2,131)	1366
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	6,7	5,013	3,681
Amortization of financing costs	11	35	34
Accretion of purchase price payable	3	12	—
Interest expense on leases and loans	11	269	210
Loss on foreign currency transactions		41	2
Loss on fair value of warrants	11	—	348
Loss on fair value of convertible debentures	11	261	635
(Gain) loss on disposal of property and equipment		35	(27)
Stock-based compensation	12	2,110	15
Bad debt expense	4	2,412	2,079
Change in inventory reserve		44	540
Change in working capital:			
Net increase in accounts receivable		(498)	(1,266)
Net increase in inventory		(43)	(1,479)
Net (increase) decrease in prepaid and other current assets		(612)	91
Net decrease in deferred revenue		(132)	—
Net increase in accounts payables and accrued liabilities		(1,424)	(3,139)
<b>Net cash flow provided by operating activities</b>		<u>5,392</u>	<u>3,090</u>
<b>Investing activities</b>			
Purchase of property and equipment	6	(973)	(387)
Cash proceeds from sale of property and equipment		140	137
Cash paid for acquisitions	3	(4,507)	(6,623)
<b>Net cash flow used in investing activities</b>		<u>(5,340)</u>	<u>(6,873)</u>
<b>Financing activities</b>			
Repayments of long-term debt	11	(4,351)	(2,925)
Payments of purchase price payable	3	(241)	(250)
Proceeds from exercise of warrants	12	—	142
Proceeds from exercise of options	12	2	460
<b>Net cash flow used in financing activities</b>		<u>(4,590)</u>	<u>(2,573)</u>
<b>Net decrease in cash</b>		(4,538)	(6,356)
Effect of exchange rate changes on cash held in foreign currencies		15	722
<b>Cash, beginning of period</b>		<u>34,612</u>	<u>29,227</u>
<b>Cash, end of period</b>		<u>\$ 30,089</u>	<u>\$ 23,593</u>

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**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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## **1. Nature of operations**

### **Reporting entity**

Quipt Home Medical Corp. (“Quipt” or the “Company”) was incorporated under the Business Corporations Act (Alberta) on March 5, 1993. On December 30, 2013, the Company was continued into British Columbia, Canada. The address of the registered office is 666 Burrard St, Vancouver, British Columbia, V6C 2Z7. The head office is located at 1019 Town Drive, Wilder, Kentucky, United States. The Company is a 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. The Company has embarked on an acquisition strategy for additional revenue and profit growth.

The Company changed its name from Protech Home Medical Corp. to Quipt Home Medical Corp. on May 13, 2021.

The Company’s shares are traded on the TSX Venture Exchange under the symbol QIPT. On May 27, 2021 the stock began trading on NASDAQ in the United States under the symbol QIPT. Effective May 13, 2021, the Company consolidated its issued and outstanding common shares based on one post-consolidation common share for every four pre-consolidation common shares. Unless otherwise stated, the share, options and warrants along with corresponding exercise prices and per-share amounts have been restated retrospectively to reflect this share consolidation.

### **Basis of measurement**

These consolidated financial statements have been prepared on a going concern basis that 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 operations.

### **COVID-19 pandemic**

On March 11, 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus (“COVID-19”) a global pandemic. In response to the outbreak, governmental authorities in the United States and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place, and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment, and economic disruptions.

Although the Company has taken steps to mitigate the impact of COVID-19, the continued presence and spread of COVID-19 nationally and globally could have a material adverse impact on the Company’s business, operations, and financial results and position, including through employee attrition, disruptions to the Company’s supply chains and sales channels, restrictions of operations at our retail stores, changes in the number of Americans with health insurance resulting in a change in demand for the Company’s products, as well as a deterioration of general economic conditions including a possible national or global recession. Due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome, and duration, it is not possible to estimate its impact on the Company’s business, operations, financial results and position or prospects at this time.

The Company continues to monitor the situation and work with its stakeholders (including customers, employees, and suppliers) in order to assess further possible implications to its business, supply chain, and customers, and, where practicable, mitigate adverse consequences and responsibly address this global pandemic.



**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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The actual and threatened spread of COVID-19 globally could adversely affect global economies and financial markets, resulting in a prolonged economic downturn and a decline in the value of the Company's share price. The extent to which COVID-19 (or any other disease, epidemic, or pandemic) impacts business activity or financial results, and the duration of any such negative impact, will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning COVID-19 and the actions required to contain or treat its impact, among others.

See Note 8 for relief payments the Company received related to the U.S. Coronavirus Aid, Relief and Economic Security ("CARES") Act.

## **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, 2021 and 2020.

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, 2021 and 2020.

The unaudited consolidated financial statements were approved and authorized for issue by the Board of Directors on April 25, 2022.

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

### **Critical accounting estimates**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments, and assumptions concerning the future. The Company's management reviews these estimates, judgments, and assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted prospectively in the period in which the estimates are revised.

Estimates where management has made subjective judgments and where there is significant risk of material adjustments to assets and liabilities in future accounting periods include fair value measurements for financial instruments and share-based transactions, useful lives and impairment of non-financial assets (property and equipment and intangible assets),

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**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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provision for expected credit losses, fair value measurements for assets and liabilities acquired in business acquisition, and calculation of deferred taxes.

The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year:

**a) Revenue recognition**

Revenues are billed to and collections are received from both third-party insurers and patients. Because of continuing changes in the health care industry and third-party reimbursement, the consideration receivable from these insurance companies is variable as these billings can be challenged by the payer. Therefore, the amount billed by the Company is reduced by an estimate of the amount that the Company believes is an allowable charge to be ultimately allowed by the insurance contract. The above estimate involves significant judgment including an analysis of past collections and historical modification rates. Management regularly reviews the actual claims approved by the insurance companies, adjusting estimated revenue as required.

**Rental of medical equipment**

The Company rents medical equipment to customers for a fixed monthly amount on a month-to-month basis. The customer generally has the right to cancel the lease at any time during the rental period. The Company considers these rentals to be operating leases. Under IFRS 16 - "Leases", the Company recognizes rental revenue on operating leases on a straight-line basis over the contractual lease term, resulting in deferred revenue for the portion of the monthly rent collected that is earned after the consolidated statement of financial position date. The term begins on the date products are delivered to patients, and revenues are recorded at amounts estimated to be received under reimbursement arrangements with third-party payors, including Medicare, private commercial payors, and Medicaid. Certain customer co-payments are included in revenue when payment is considered probable.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application or claim denial.

**Sales of medical equipment and supplies**

The Company sells equipment, replacement parts, and supplies to customers and recognizes revenue based on contractual payment rates as determined by the payors at the point in time where control of the good or service is transferred through delivery to the customer. The payors are generally charged at the time that the product is sold.

The transaction price on equipment sales is the amount that the Company expects to receive in exchange for the goods and services provided. Due to the nature of the industry, gross charges are retail charges and generally do not reflect what the Company is ultimately paid. As such, the transaction price is constrained for the difference between the gross charge and what is estimated to be collected from payors and from patients. The transaction price therefore is predominantly based on contractual payment rates as determined by the payors. The Company does not generally contract with uninsured customers

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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but does offer point-of-sale payments at retail outlets. The payment terms and conditions of customer contracts vary by customer type and the products and services offered.

The Company determines its estimates of contractual allowances and discounts based upon contractual agreements and historical experience. While the rates are fixed for the product or service with the customer and the payors, such amounts typically include co-payments, co-insurance, and deductibles, which vary in amounts, and are due from secondary insurance providers and/or the patient. The Company includes in the transaction price only the amount that the Company expects to be entitled, which is substantially all of the payor billings at contractual rates.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of claim approval or denial.

Returns and refunds are not accepted on equipment sales. The Company does not offer warranties to customers in excess of the manufacturer's warranty. Any taxes due upon sale of the products or services are not recognized as revenue. The Company does not have any partially or unfilled performance obligations related to contracts with customers and as such, the Company has no contract liabilities as of December 31, 2021, relating to sale of medical equipment and supplies.

**b) Valuation of accounts receivable**

The measurement of expected credit losses considers information about past events and current conditions. Forward looking macro-economic factors are incorporated into the risk parameters, such as unemployment rates, inflation, and interest rates. Significant judgments are made in order to incorporate forward-looking information into the estimation of allowances and may result in changes to the provision from period to period which may significantly affect our results of operations.

The Company estimates that a certain portion of receivables from customers may not be collected and maintains an allowance for doubtful accounts. The Company evaluates the net realizable value of accounts receivable as of the date of the consolidated balance sheets. Specifically, the Company considers historical realization data, including current and historical cash collections, accounts receivable aging trends, other operating trends, and relevant business conditions. Because of continuing changes in the health care industry and third-party reimbursement, it is possible that the estimates could change, which could have a material impact on the operations and cash flows. If circumstances related to certain customers change or actual results differ from expectations, our estimate of the recoverability of receivables could fluctuate from that provided for in our consolidated financial statements. A change in estimate could impact bad debt expense and accounts receivable.

**c) Valuation of inventories**

Inventory is recorded at the lower of cost or market. Inventory is expensed through cost of inventory sold when shipped to customers or transferred to property and equipment when rented to customers. The Company estimates that a certain portion of inventory purchased may be excess, obsolete, or non-saleable. The Company maintains a provision for

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**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

obsolescence for these items. Valuation of the inventory was assessed, and all inventory items which are more than two years are old and not supported by recent sales were provided for 40% in accordance with Company's policy.

**d) Property and equipment**

Property and equipment is 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:

<b>Description</b>	<b>Estimated Useful Life</b>
Rental equipment	1-5 years
Computer equipment	3-5 years
Office furniture and fixtures	5-10 years
Leasehold improvements	Life of lease (1-7 years)
Right-of-use vehicles	5 years
Right of use real estate leases	Life of lease (1-6 years)

Depreciation of rental 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.

**e) 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:

<b>Description</b>	<b>Estimated Useful Life</b>
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 Consolidated Statements of Income (Loss) and Comprehensive Income (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

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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factors. A change in management's estimate could impact depreciation/amortization expense and the carrying value of property and equipment and intangible assets.

**f) Lease liabilities**

**Estimate of lease term**

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and determines whether it will extend the lease at the end of the lease contract or exercise an early termination option. As it is not reasonably certain that the extension or early termination options will be exercised, the Company determined that the term of its leases are the lesser of original lease term or the life of the leased asset. This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

**Incremental borrowing rate**

When the Company recognizes a lease, the future lease payments are discounted using the Company's incremental borrowing rate. This significant estimate impacts the carrying amount of the lease liabilities and the interest expense recorded on the consolidated statement of loss and comprehensive loss.

**Critical Accounting Judgements**

The following are the critical judgments, apart from those involving estimations, that have been made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

**a) Functional currency**

The consolidated financial statements of the Company are presented in US dollars, which is the Company's functional currency. Determined using management's judgment that the primary economic environment in which it will derive its revenue and expenses incurred to generate those revenues is the United States. 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.

**b) Business combinations**

In accordance with IFRS 3 – Business Combinations (“IFRS 3”), a transaction is recorded as a business combination if the significant assets, liabilities, or activities in addition to property and related mortgage debt assumed constitute a business. A business is defined as an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs, or other economic benefits. Where there are no such integrated activities, the transaction is treated as an asset acquisition. The estimation of the fair value of the assets and liabilities acquired in an acquisition is subject to judgement concerning estimating market values and predicting future events. These values are uncertain and can materially impact the carrying value of the acquired assets and the amount allocated to goodwill.

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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**c) Recognition and initial measurement**

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in the consolidated statement of income (loss) and comprehensive income (loss) when incurred.

**Financial instruments**

**Fair value measurement**

Financial instruments carried at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Where financial instruments are traded in active financial markets; fair value is determined by reference to the appropriate quoted market price at the reporting date. Active markets are those in which transactions occur in significant frequency and volume to provide pricing information on an ongoing basis;

Level 2 – If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data where possible, including recent arm's length market transaction and comparisons to the current fair value of similar instruments, but where this is not feasible, inputs such as liquidity risk, credit risk and volatility are used; and

Level 3 – In this level, fair value determinations are made with inputs other than observable market data.

Cash is classified as Level 1. The convertible debentures have been valued using Level 1 inputs.

**Financial instrument risk exposure**

The Company's activities expose it to a variety of financial risks: market risk (including credit risk, liquidity risk and interest rate risk), credit risk, and liquidity risk. These risks arise from the normal course of operations and all transactions are undertaken to support the Company's ability to continue as a going concern. Risk management is carried out by management under policies promulgated by the Board of Directors. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk are primarily cash and accounts receivable. Each subsidiary places its cash with one major financial institution. At times, the cash in the financial institution is temporarily more than the amount insured by the Federal Deposit Insurance Corporation. Substantially all accounts receivable is due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. Receivables generally are collected within industry norms for third-party payors. The Company continuously monitors collections from its clients and maintains an allowance for bad debts based upon any specific payor collection issues that are identified and historical experience. The expected

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

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loss rates are based on the historical loss rates and are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables, such as the unemployment rate of the states in which it conducts business. Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, a failure to make contractual payments after multiple collection efforts, including third party collection agencies.

As of December 31, 2021, the Company has approximately 8% of the Company's receivables are due from Medicare. As this is a federal health insurance program in the United States, there is nominal credit risk associated with these balances.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due by continuously monitoring actual and budgeted cash flows and monitoring financial market conditions for signs of weakness.

As of December 31, 2021, the Company faces no material liquidity risk and can meet all its current financial obligations as they become due and payable. The Company has \$30,874,000 of liabilities that are due within one year but has \$52,431,000 of current assets and availability under the revolving credit facility to meet those obligations.

**Interest rate risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with Chartered Canadian and registered US financial institutions. The Company considers this risk to be immaterial. The interest on the debenture and equipment loans is not subject to cash flow interest rate risk as these instruments bear interest at fixed rates.

**3. Acquisition of businesses and purchase accounting**

**Acquisition of Thrift Home Care, Inc**

On October 1, 2021, the Company, through PHM Logistics Corporation, entered into a purchase agreement to acquire all the shares of Thrift Home Care, Inc. (Thrift), Mississippi company in the same industry as the Company. The purchase price was \$2,171,000 of which \$1,804,000 was paid in cash at closing, with remaining holdbacks due on the six- and twelve-month anniversaries of the acquisition discounted at 2.39% for a fair value of \$367,000. The Company has determined that the transaction is an acquisition of a business under IFRS 3 – Business Combinations, and it has been accounted for by applying the acquisition method. The Company expensed \$8,000 of professional fees in conjunction with the acquisition.

The revenues and net income for Thrift for the three months ended December 31, 2021 was approximately \$550,000 and \$100,000, respectively.

The primary areas of the preliminary purchase price allocation that are not yet finalized relate to: property and equipment, intangible assets acquired, deferred tax liabilities, working capital adjustments, and purchase price. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could be affected. The fair value of the acquired assets is provisional pending final valuations of the assets and liabilities is as follows:

Cash	\$ 452
Accounts receivable	165
Inventory	150
Property and equipment	220
Right of use real estate	834
Goodwill (provisional)	1,373
Accounts payable	(140)
Accrued liabilities	(33)
Deferred revenue	(40)
Lease liabilities	(810)
<b>Net assets acquired</b>	<b>\$ 2,171</b>
Cash paid at closing	\$ 1,804
Cash to be paid after closing, included in purchase price payable	367
<b>Consideration paid or payable</b>	<b>\$ 2,171</b>

The goodwill is attributable to expected synergies from the combining operations. None of the goodwill is deductible for tax purposes.

**Acquisition of Heckman Healthcare Services & Supplies, Inc.**

On November 1, 2021, the Company, through PHM Logistics Corporation, entered into a purchase agreement to acquire all the shares of Heckman Healthcare Services & Supplies, Inc (Heckman). Heckman is a Illinois based company in the same industry as the Company. The purchase price was \$2,434,000, of which \$2,103,000 was paid in cash at closing, with remaining holdbacks due on the six- and twelve-month anniversaries of the acquisition discounted at 2.39% for a fair value of \$331,000. 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. The Company expensed \$6,000 of professional fees in conjunction with the acquisition.

The pro forma revenues and net income for Heckman for the three months ended December 31, 2021 was approximately \$600,000 and \$150,000, respectively, of which approximately \$400,000 and \$100,000 were recognized in the period from November 1, 2021 to December 31, 2021.

The primary areas of the preliminary purchase price allocation that are not yet finalized relate to property and equipment, working capital adjustments, and purchase price. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods



**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

subsequent to the period of acquisition could be affected. The fair value of the acquired assets is provisional pending final valuations of the assets and liabilities is as follows:

Cash	\$ 169
Accounts receivable	146
Inventory	369
Property and equipment	613
Right of use real estate	67
Goodwill (provisional)	1,332
Accounts payable	(159)
Accrued liabilities	(76)
Deferred revenue	(27)
<b>Net assets acquired</b>	<b>\$ 2,434</b>
Cash paid at closing	\$ 2,103
Cash to be paid after closing, included in purchase price payable	331
<b>Consideration paid or payable</b>	<b>\$ 2,434</b>

The goodwill is attributable to expected synergies from the combining operations. None of the goodwill is deductible for tax purposes.

**Acquisition of Southeastern Biomedical Services, LLC**

On November 9, 2021, the Company, through newly-created entity SE Biomedical Holdco, LLC (Southeastern Bio), a Kentucky limited liability company, entered into a purchase agreement to acquire substantially all of the assets of Southeastern Biomedical Services, LLC. Southeastern Bio provides repair parts and service, calibration, and electrical safety for the durable medical equipment industry, and was a vendor of the Company. The purchase price was \$697,000, of which \$600,000 was paid in cash at closing, with remaining holdbacks payable on the six- and twelve-month anniversaries of the acquisition discounted at 2.39% for a fair value of \$97,000. 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. The Company expensed \$5,000 of professional fees in conjunction with the acquisition.

The pro forma revenues and net income for Southeastern Bio for the three months ended December 31, 2021 was approximately \$500,000 and \$120,000, respectively, of which approximately \$300,000 and \$70,000 were recognized in the period from November 9, 2021 to December 31, 2021.

The primary areas of the preliminary purchase price allocation that are not yet finalized relate to: property and equipment, intangible assets acquired, deferred tax liabilities, working capital adjustments, and purchase price. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

the nature of the adjustments, other periods subsequent to the period of acquisition could be affected. The fair value of the acquired assets is provisional pending final valuations of the assets and liabilities and is as follows:

Accounts receivable	\$ 118
Inventory	75
Property and equipment	85
Right of use real estate	196
Goodwill (provisional)	487
Accounts payable	(126)
Lease liabilities	(138)
<b>Net assets acquired</b>	<b>\$ 697</b>
Cash paid at closing	\$ 600
Cash to be paid after closing, included in purchase price payable	97
<b>Consideration paid or payable</b>	<b>\$ 697</b>

The goodwill is attributable to expected synergies from the combining operations. All of the goodwill is deductible for tax purposes.

**Purchase Price Payable**

The purchase price payable included on the statements of financial position consists of amounts related to prior period acquisitions in addition to the three fiscal year 2022 acquisitions less payments made to date. Below is the movement in Purchase Price Payable for the three months ended December 31, 2021:

	<b>Three months ended December 31, 2021</b>
Balance September 30, 2021 (current \$2,383 plus long-term \$133)	\$ 2,516
Addition from acquisitions	795
Accretion of interest	12
Payments on prior period acquisitions	(241)
Balance December 31, 2021 (current \$2,949 plus long-term \$133)	<u>\$ 3,082</u>

**4. Accounts Receivable**

Accounts receivable represents amounts due from insurance companies and patients:

	<b>As at December 31, 2021</b>	<b>As at September 30, 2021</b>
Gross receivable	\$ 14,032	\$ 15,413
Reserve for expected credit losses	(3,579)	(3,475)
Total	<u>\$ 10,453</u>	<u>\$ 11,938</u>

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

<b>As at September 30, 2021</b>	<b>Gross Receivables</b>	<b>Allowance for expected credit losses</b>	<b>Net Receivables</b>
0 – 90 days	\$ 11,279	\$ (1,418)	\$ 9,861
91 – 180 days	2,027	(731)	1,296
Over 180 days	2,107	(1,326)	781
<b>Total</b>	<b>\$ 15,413</b>	<b>\$ (3,475)</b>	<b>\$ 11,938</b>
<b>As at December 31, 2021</b>			
0 – 90 days	\$ 10,141	\$ (1,302)	\$ 8,839
91 – 180 days	1,842	(712)	1,130
Over 180 days	2,049	(1,565)	484
<b>Total</b>	<b>\$ 14,032</b>	<b>\$ (3,579)</b>	<b>\$ 10,453</b>

Below is the movement in the reserve for expected credit losses:

<b>Reserve for expected credit losses</b>	<b>Three months ended December 31, 2021</b>	<b>For the year ended September 30, 2021</b>
Opening Balance	\$ 3,475	\$ 5,036
Bad debt expense	2,412	7,957
Amounts written off	(2,308)	(9,518)
Ending Balance	<b>\$ 3,579</b>	<b>\$ 3,475</b>

## 5. Inventory

The following chart represents the components of inventory as at December 31, 2021 and September 30, 2021:

	<b>As at December 31, 2021</b>	<b>As at September 30, 2021</b>
Serialized	\$ 2,735	\$ 2,369
Non-serialized	7,193	6,922
Reserve for shrink and slow-moving inventory	(82)	(38)
<b>Total Inventory</b>	<b>\$ 9,846</b>	<b>\$ 9,253</b>

The reserve for slow-moving inventory is included under cost of inventory sold in the condensed consolidated interim statement of income (loss) and comprehensive income (loss).

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

**6. Property and equipment and right of use assets**

Cost	Rental equipment	Computer equipment	Office furniture and fixtures	Land	Buildings and Leasehold improvements	Right of use assets – Vehicles	Right of use assets – Real estate	Total
Balance								
September 30, 2020	\$ 22,568	\$ 171	\$ 333	\$ —	\$ 1,364	\$ 2,872	\$ 4,990	\$ 32,298
Transfers from inventory	2,259	—	—	—	—	—	—	2,259
Additions	—	4	—	—	11	157	902	1,074
Acquisitions	960	—	—	—	—	—	313	1,273
Disposals and write offs	(2,731)	(17)	(11)	—	(3)	(177)	(302)	(3,241)
Balance								
December 31, 2020	\$ 23,056	\$ 158	\$ 322	\$ —	\$ 1,372	\$ 2,852	\$ 5,903	\$ 33,663
Balance								
September 30, 2021	\$ 31,146	\$ 155	\$ 327	\$ —	\$ 1,498	\$ 4,175	\$ 7,750	\$ 45,051
Transfers from inventory	3,457	—	—	—	—	—	—	3,457
Additions	—	—	—	—	1	136	109	246
Acquisitions	405	—	—	211	303	185	912	2,016
Disposals and write offs	(4,165)	(16)	(91)	—	—	(394)	(404)	(5,070)
Balance								
December 31, 2021	\$ 30,843	\$ 139	\$ 236	\$ 211	\$ 1,802	\$ 4,102	\$ 8,367	\$ 45,700
<b>Accumulated depreciation</b>	<b>Rental equipment</b>	<b>Computer equipment</b>	<b>Office furniture and fixtures</b>	<b>Land</b>	<b>Buildings and Leasehold improvements</b>	<b>Right of use assets – Vehicles</b>	<b>Right of use assets – Real estate</b>	<b>Total</b>
Balance								
September 30, 2020	\$ 12,311	\$ 106	\$ 229	\$ —	\$ 309	\$ 1,182	\$ 1,494	\$ 15,631
Depreciation	2,652	8	15	—	29	172	490	3,366
Disposals and write offs	(2,731)	(17)	(11)	—	(3)	(162)	(207)	(3,131)
Balance								
December 31, 2020	\$ 12,232	\$ 97	\$ 233	\$ —	\$ 335	\$ 1,192	\$ 1,777	\$ 15,866
Balance								
September 30, 2021	\$ 16,419	\$ 104	\$ 279	\$ —	\$ 431	\$ 1,635	\$ 2,677	\$ 21,545
Depreciation	3,661	7	12	—	41	282	563	4,566
Disposals and write offs	(4,153)	(16)	(91)	—	—	(250)	(305)	(4,815)
Balance								
December 31, 2021	\$ 15,927	\$ 95	\$ 200	\$ —	\$ 472	\$ 1,667	\$ 2,935	\$ 21,296

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

Net Book Value	Rental equipment	Computer equipment	Office furniture and fixtures	Land	Buildings and Leasehold improvements	Right of use assets – Vehicles	Right of use assets – Real estate	Total
Balance								
September 30, 2020	\$ 10,257	\$ 65	\$ 104	\$ —	\$ 1,055	\$ 1,690	\$ 3,496	\$ 16,667
Balance								
December 31, 2020	\$ 10,824	\$ 61	\$ 89	\$ —	\$ 1,037	\$ 1,660	\$ 4,126	\$ 17,797
Balance								
September 30, 2021	\$ 14,727	\$ 51	\$ 48	\$ —	\$ 1,067	\$ 2,540	\$ 5,073	\$ 23,506
Balance								
December 31, 2021	\$ 14,916	\$ 44	\$ 36	\$ 211	\$ 1,330	\$ 2,435	\$ 5,432	\$ 24,404

Out of the \$3,457,000 rental equipment transferred from inventory during the three months ended December 31, 2021, the Company obtained equipment loans (Note 11) for \$2,485,000 with the balance of \$972,000 paid in cash. For the three months ended December 31, 2020, the Company obtained equipment loans of \$1,887,000 with the balance of \$372,000 paid in cash.

## 7. Goodwill and Intangible Assets

Cost	Goodwill	Non-compete agreements	Brand	Customer contracts	Customer relationships	Sub-total intangibles with finite lives	Total
Balance September 30, 2020	\$ 3,895	\$ 637	\$ 1,881	\$ 3,851	\$ 11,766	\$ 18,135	\$ 22,030
Acquisitions	4,067	220	520	—	4,670	5,410	9,477
Disposals	—	—	—	—	(51)	(51)	(51)
Balance December 31, 2020	\$ 7,962	\$ 857	\$ 2,401	\$ 3,851	\$ 16,385	\$ 23,494	\$ 31,456
Balance September 30, 2021	\$ 12,456	\$ 1,007	\$ 3,251	\$ 3,851	\$ 20,690	\$ 28,799	\$ 41,255
Acquisitions	3,198	—	—	—	—	—	3,198
Disposals	—	—	—	—	(2)	(2)	(2)
Balance December 31, 2021	\$ 15,654	\$ 1,007	\$ 3,251	\$ 3,851	\$ 20,688	\$ 28,797	\$ 44,451

  

Accumulation amortization	Goodwill	Non-compete agreements	Brand	Customer contracts	Customer relationships	Sub-total intangibles with finite lives	Total
Balance September 30, 2020	\$ —	\$ 522	\$ 989	\$ 3,845	\$ 7,200	\$ 12,556	\$ 12,556
Amortization	—	19	43	5	248	315	315
Disposals	—	—	—	—	(51)	(51)	(51)
Balance December 31, 2020	\$ —	\$ 541	\$ 1,032	\$ 3,850	\$ 7,397	\$ 12,820	\$ 12,820
Balance September 30, 2021	\$ —	\$ 607	\$ 1,200	\$ 3,851	\$ 8,267	\$ 13,925	\$ 13,925
Amortization	—	25	68	—	354	447	447
Disposals	—	—	—	—	(2)	(2)	(2)
Balance December 31, 2021	\$ —	\$ 632	\$ 1,268	\$ 3,851	\$ 8,619	\$ 14,370	\$ 14,370

Sub-total

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

<u>Net carrying amount</u>	<u>Goodwill</u>	<u>Non- compete agreements</u>	<u>Brand</u>	<u>Customer contracts</u>	<u>Customer relationships</u>	<u>intangibles with finite lives</u>	<u>Total</u>
Balance September 30, 2020	\$ 3,895	\$ 115	\$ 892	\$ 6	\$ 4,566	\$ 5,579	\$ 9,474
Balance December 31, 2020	\$ 7,962	\$ 316	\$ 1,369	\$ 1	\$ 8,988	\$ 10,674	\$ 18,636
Balance September 30, 2021	\$ 12,456	\$ 400	\$ 2,051	\$ —	\$ 12,423	\$ 14,874	\$ 27,330
Balance December 31, 2021	\$ 15,654	\$ 375	\$ 1,983	\$ —	\$ 12,069	\$ 14,427	\$ 30,081

## 8. Government Grant

During the year ended September 30, 2020, the Company received payments related to the two separate provisions of the US CARES Act.

### Payroll Protection Plan (“PPP”)

On April 16, 2020, the Company received \$4,254,000 related to the PPP, which was to assist companies in maintaining their workforce. The PPP provided for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses. The loans and accrued interest are forgivable if the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities for up to twenty-four weeks, and maintains certain payroll levels. The unforgiven portion of the PPP loan is payable, with 1% interest over nine equal installments of \$472,000 from September 2021 through April 2022.

The Company applied for forgiveness of the loan in August 2021. In October 2021, the bank approved the application and forwarded the Company’s application to the SBA. The SBA has not yet completed their review of the application. The Company has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven, it has accounted for the proceeds under IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The cash inflow has been reported as a financing activity and a liability has been recorded on the statements of financial position. No reduction in the liability has been recorded as of December 31, 2021.

### Public Health and Social Services Emergency Fund (“Relief Fund”)

During the year ended September 30, 2020, the Company received \$1,797,000 from the Relief Fund, which was established to support healthcare providers to prevent, prepare for, and respond to coronavirus, including health care related expenses or lost revenues, subject to certain terms and conditions. If those terms and conditions are met, payments do not need to be repaid. No expenses related to the PPP can be used to meet the terms and conditions for the Relief Fund.

In September 2021, the Company submitted its filing with the Health and Human Services (“HHS”) supporting the use of the funds under the terms and conditions of the Relief Fund. The HHS has not indicated whether any formal notification of acceptance will be provided. The Company has accounted for the proceeds under IAS 20. The cash inflow has been reported as a financing activity. The original proceeds were recognized as a liability, which was reduced based on certain related costs incurred. During the year ended September 30, 2020, the Company reduced the liability by \$1,166,000, which

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

was included in other income in the consolidated statements of income (loss) and comprehensive income (loss). No reduction was recorded in the three months ended December 31, 2021 or 2020.

	<u>Current</u>	<u>Long Term</u>	<u>Total</u>
Balance September 30, 2020	\$ 2,599	\$ 2,286	\$ 4,885
Change in current and long-term portions	(708)	708	—
Balance December 31, 2020	<u>\$ 1,891</u>	<u>\$ 2,994</u>	<u>\$ 4,885</u>
Balance September 30, 2021	\$ 4,885	\$ —	\$ 4,885
Change in current and long-term portions	—	—	—
Balance December 31, 2021	<u>\$ 4,885</u>	<u>\$ —</u>	<u>\$ 4,885</u>

## 9. Deferred Revenue

Activity for deferred revenue for the three months ended December 31, 2021 and year ended September 2021 is as follows:

	<u>For the three months ended December 31, 2021</u>	<u>For the year ended September 30, 2021</u>
Beginning Balance	\$ 2,452	\$ 1,804
Acquisitions	67	316
Net change	(132)	332
Ending Balance	<u>\$ 2,387</u>	<u>\$ 2,452</u>

## 10. Derivative warrant liability

On June 29, 2020, the Company completed a bought deal public offering, a concurrent brokered private placement, and a non-brokered private placement to the Company's Chief Executive Officer and a director of the Company, for 27,678,826 units, respectively. Each unit consisted of one common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant"), for a total of 13,839,413 Warrants. Each Warrant will be exercisable to acquire one common share for a period of 12 months following the closing at an exercise price of C\$6.40 per share. During the year ended September 30, 2020, 13,559,300 Warrants for 3,389,825 common shares were exercised, and the remaining 280,113 Warrants for 70,028 common shares expired on June 29, 2021. The Warrants were recorded as a liability since they are denominated in Canadian Dollars and the Company's functional currency is US dollars. A revaluation was performed each period end, with the change in fair value recorded in the caption "Change in fair value of warrants." Upon exercise, the warrant liability was derecognized and transferred to equity.

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

Warrant activity for the year ended September 30, 2021 and the three months ended December 31, 2021 is provided below:

	<b>For the three months ended December 31, 2021</b>	<b>For the three months ended December 31, 2020</b>
Beginning Balance	\$ —	\$ 1,855
Exercised	—	(35)
Change in fair value	—	348
Change in foreign exchange rate	—	94
Ending Balance	<u>\$ —</u>	<u>\$ 2,262</u>

## 11. Long-term Debt

### Debentures

On March 7, 2019, the Company issued C\$15,000,000 in 8.0% Convertible Unsecured Debentures due March 7, 2024, with interest payable semi-annually on June 30 and December 31. Each C\$1,000 (\$807) debenture is convertible at the option of the holder into 192.31 common shares. As of September 30, 2020, C\$4,000 of debentures had been converted into common shares, and during the year ended September 30, 2021, C\$4,037,000 of debentures were converted into common shares, leaving C\$10,959,000 (\$8,601,000) of face value of the debentures remaining. The fair value of the debentures on the dates of conversion totaled C\$6,766,000, or \$5,359,000. After three years, the Company can force conversion of the outstanding principal at a conversion price of C\$5.20, if the daily volume weighted average price of the common shares exceeds C\$6.48 per share for twenty consecutive trading days. The debenture agreement also allows for payment of cash in lieu of common shares upon exercise of conversion right by the holder, equivalent of the market price on the conversion date.

The debentures contain multiple embedded derivatives including conversion right, forced conversion option and payment in lieu of common shares. Since the Company is unable to measure the fair value of embedded derivatives reliably, it has chosen to designate the convertible debentures in their entirety (including conversion right, forced conversion option and payment in lieu of common shares) to be subsequently measured at fair value through profit or loss (FVTPL).

The debentures are valued at fair value using the current trading price of C\$140 (\$110) and C\$137 (\$109) as of December 31, 2021 and September 30, 2021, respectively, per unit. A loss of \$261,000 and \$3,591,00 was recorded for the three months ended December 31, 2021 and year ended September 30, 2021, respectively. Following is the movement in these debentures:

	<b>Three months ended December 31, 2021</b>	<b>Year ended September 30, 2021</b>
Beginning Balance	\$ 11,784	\$ 12,930
Conversion to common shares	—	(5,359)
Change in fair value	261	3,591
Change in foreign exchange rate	57	622
Ending Balance	<u>\$ 12,102</u>	<u>\$ 11,784</u>



**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

In conjunction with issuance of the debentures, the Company issued compensation options to the underwriters for 129,808 shares of the Company at an exercise price of C\$5.20 for a period of two years from the closing of the transaction. The fair value of the options has been valued at \$1.02 per option for a total of \$133,000 using the Black-Scholes pricing model.

Compensation options activity for the year ended September 30, 2021 and three months ended December 31, 2021 is provided below:

	Number (000s)	Weighted average exercise price
Balance September 30, 2020	130	C\$ 5.20
Exercised	(104)	5.20
Balance December 31, 2020	26	C\$ 5.20
Balance September 30, 2021	—	C\$ —
Exercised	—	—
Balance December 31, 2021	—	C\$ —

#### Equipment Loans

The Company is offered financing arrangements from the Company's suppliers and the supplier's designated financial institution, in which payments for certain invoices or products can be financed and paid over an extended period. The financial institution pays the supplier when the original invoice becomes due, and the Company pays the third-party financial institution over a period of time. In some cases, the supplier accepts a discounted amount from the financial institution and the Company repays the financial institution the face amount of the invoice with no stated interest, in twelve equal monthly installments. The Company uses a 6% incremental borrowing rate to impute interest on these arrangements. In other cases, the supplier receives the full invoice price and Company pays a stated interest rate to the financial institution, ranging from 5.6% to 8.0%, with the terms of the financing ranging from 12 to 48 months. There are no covenants with the loans and the carrying value of the equipment that is pledged as security against the loans is \$8,568,000 and \$6,939,000 as of December 31, 2021 and September 30, 2021, respectively.

Following is the activity in equipment loans for the three months ended December 31, 2021 and year ended September 30, 2021:

	Three months ended December 31, 2021	Year ended September 30, 2021
Beginning Balance	\$ 7,384	\$ 4,750
Additions:		
Acquisitions	—	3,001
Operations	2,485	10,049
Interest expense	99	376
Repayments	(3,353)	(10,792)
Ending Balance	6,615	7,384
Current portion, less than 1 year	6,303	6,992
Long-term portion, due between 1 and 5 years	\$ 312	\$ 392

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

**Leases Liabilities**

The Company enters into leases for real estate and vehicles. Real estate leases are valued at the net present value of the future lease payments at an 8% incremental borrowing rate. Vehicle leases are recorded at rate implicit in the lease based on the current value and the estimated residual value of the vehicle, equating to rates ranging from 1.7% to 10.4%.

Below is the movement in lease liabilities for the three months ended December 31, 2021:

	Vehicles	Real estate	Total
Balance September 30, 2020	\$ 1,627	\$ 3,640	\$ 5,267
Additions during the period:			—
Acquisitions	109	1,603	1,712
Operations	1,385	2,560	3,945
Interest	163	388	551
Lease Terminations	—	(612)	(612)
Repayments	(870)	(2,228)	(3,098)
Balance September 30, 2021	\$ 2,414	\$ 5,351	\$ 7,765
Additions during the period:			
Acquisitions	35	912	947
Operations	143	102	245
Interest	50	118	168
Change in lease terms	—	(78)	(78)
Repayments	(380)	(616)	(996)
Balance December 31, 2021	\$ 2,262	\$ 5,789	\$ 8,051

Future payments pursuant to lease liabilities are as follows:

	As at December 31, 2021	As at September 30, 2021
Less than 1 year	\$ 3,356	\$ 3,491
Between 1 and 5 years	5,383	5,367
More than five years	645	38
Gross lease payments	9,384	8,896
Less: finance charges	(1,333)	(1,131)
Net lease liabilities	\$ 8,051	\$ 7,765

**SBA Loan**

In conjunction with the acquisition of Mayhugh on February 1, 2021, the Company assumed an SBA Loan. The face amount of the loan is \$150,000 and bears interest at stated interest rate of 3.75%. Due to the below-market interest rate, the Company valued the loan at the net present value of the payments using its incremental borrowing rate of 6%, resulting in a fair value on the acquisition date of \$122,000. The loan is payable in 360 monthly installments of \$731 beginning June 2021 and is secured by substantially all the assets of Mayhugh.

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

Following is the activity in the SBA Loan for the three months ended December 31, 2021:

	<b>Three months ended December 31, 2021</b>	<b>Three months ended December 31, 2020</b>
Beginning Balance	\$ 121	\$ —
Additions:		
Interest expense	2	—
Repayments	(2)	—
Ending Balance	<u>\$ 121</u>	<u>\$ —</u>

### Revolving Credit Facility

In September 2020, the Company entered a \$20,000,000 asset-based revolving credit facility with a US bank. The facility matures in September 2024 and bears interest at floating rate of LIBOR plus 2.0% to 2.5%, with a LIBOR floor of 0.5% and has an unused commitment fee of 0.3%. The Company has no borrowings from this facility as at December 31, 2021 and September 30, 2021. Interest expense for the facility for both the three months ended December 31, 2021 and 2020 totaled \$13,000 and primarily related to the unused commitment fee. The facility is subject to a borrowing base based on a percentage of eligible accounts receivable and expected future revenues from existing customer rentals. Issuance costs are recorded in “deferred financing costs” on the consolidated statements of financial position and are being amortized on a straight-line over the four-year term of the facility for a total of \$35,000 and \$34,000 for the three months ended December 31, 2021 and 2020, respectively.

## 12. Share capital

The Company considers its capital to be shareholders’ equity, which is comprised of capital stock, contributed surplus, shares to be issued, and accumulated deficit, in the amount of \$58,602,000 and \$57,408,000 as at December 31, 2021 and September 30, 2021, respectively.

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, and long-term debt, including debentures, equipment loans and leases.

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.

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

**Issued share capital**

The Company has only one class of common stock outstanding. Effective May 13, 2021, the Company consolidated its issued and outstanding common shares based on one post-consolidation common share for every four pre-consolidation common shares. Unless otherwise stated, the share, options and warrants along with corresponding exercise prices and per-share amounts have been restated retrospectively to reflect this share consolidation.

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction of equity, net of any tax effects. Accumulated other comprehensive income represents items such as cumulative, foreign currency translation adjustments, 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.

**Bought deals and private placements**

On June 29, 2020, the Company completed a bought deal public offering, a concurrent brokered private placement, and a non-brokered private placement to the Company's Chief Executive Officer and a director of the Company, for a total of 27,678,826 pre-consolidation units, comprising 27,678,826 pre-consolidation shares, or 6,919,706 post-consolidation shares, and 27,678,826 warrants. Each unit issued was issued at a pre-consolidation price of C\$1.15 for total gross proceeds of C\$31,831,000 (\$23,462,000) and consisted of one pre-consolidation common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant") for a total of 13,839,413 Warrants. The fair value of the Warrants was recorded as a liability and valued at June 29, 2020, at \$0.12, for a total of \$1,628,000, using the Black-Scholes pricing model, as described in Note 10. Upon exercise, the warrant liability was derecognized and transferred to equity.

Following the consolidation, for every four Warrants exercised in accordance with its terms, the holder will be entitled to acquire one common share for a period of 12 months following the closing at an exercise price of C\$6.40 per share. During the year ended September 30, 2021, 13,559,300 Warrants for 3,389,825 common shares were exercised, for total proceeds of C\$21,695,000, or \$17,473,000.

Warrant activity for the three months ended December 31, 2021 is provided below:

	Number (000s)	Weighted average exercise price
Balance September 30, 2020	3,460	C\$ 6.40
Exercised	(29)	6.40
Balance December 31, 2020	3,431	C\$ 6.40
Balance September 30, 2021	—	C\$ —
Exercised	—	—
Balance December 31, 2021	—	C\$ —

Issuance costs of \$2,855,000 in cash were incurred. These costs were allocated ratably between common shares and warrant liability, with \$2,645,000 recorded as a reduction of equity and \$210,000 recorded as "Transaction costs on issuance of financial liabilities." The Company issued compensation options to the underwriter for 367,826 shares at the issue price of C\$4.60 for a period of two years from the closing of the offering. The fair value of the options has been valued at \$1.24 for a total of \$456,000.

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

Activity for the June 2020 compensation options for the three months ended December 31, 2021 is as follows:

	Number (000s)	Weighted average exercise price
Balance September 30, 2020	353	C\$ 4.60
Exercised	—	—
Balance December 31, 2020	353	C\$ 4.60
Balance September 30, 2021	—	C\$ —
Exercised	—	—
Balance December 31, 2021	—	C\$ —

**Shares to be issued**

As discussed in Note 3, the Company acquired Sleepwell on October 23, 2020, with a portion of the purchase price in shares. \$2,376,000 (629,000 shares at a fair value of \$3.78 per share) was issued in January 2021, and \$657,000 (246,000 shares at a fair value of \$2.67) is expected to be issued in August 2022. The fair value of the stock has been discounted by 15% and 25%, respectively, using the Black-Scholes pricing model for put options, to reflect the inability to sell the stock for a period and for the time between the date of the acquisition and the dates the stock is to be issued.

**Stock options and grants**

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 having varying vesting periods and the options granted during the three months ended December 31, 2021 vest annually over four years or quarterly over twelve quarters.

A summary of stock options is provided below:

	Number of options (000's)	Weighted average exercise price
Balance September 30, 2020	2,626	C\$ 1.92
Granted	50	6.16
Exercised	(15)	3.96
Expired	(28)	3.72
Balance December 30, 2020	2,633	C\$ 1.92
Balance September 30, 2021	3,786	C\$ 4.15
Exercised	(2)	1.50
Expired	(10)	4.91
Forfeited	(31)	8.48
Balance December 31, 2021	3,743	C\$ 4.11

At December 31, 2021, the Company had 2,554,196 vested stock options with a weighted average exercise price of C\$2.10. At December 31, 2020, the Company had 2,562,750 vested stock options with a weighted average exercise price of C\$1.88. The weighted average share price on the dates of exercise in fiscal years 2021 and 2020 was C\$8.11 and C\$4.20, respectively.

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

**Restricted stock units**

On May 20, 2021, there were 953,750 restricted stock units granted to officers and directors. Each unit represents the right to receive one common share, and vests over a period of two years from the grant date at the rate of one-eighth every three months commencing August 20, 2021. Therefore, 238,438 restricted stock units have vested as of December 31, 2021. The shares will be issued on the first business day of each calendar year in an amount equal to the units that vested in the previous calendar year or earlier upon a Change in Control, as defined. The fair value of the units on the date of grant are discounted to reflect the difference between the vesting dates and the issuance dates, resulting in compensation expense of C\$7,586,000 to be expensed over the vesting period with an increase to contributed surplus.

A summary of restricted stock units:

	<u>Number of units (000's)</u>	<u>Weighted average exercise price</u>	
Balance September 30, 2020	—	C\$	—
Granted	—		—
Balance December 31, 2020	—	C\$	—
Balance September 30, 2021	954	C\$	8.48
Exercised	—		—
Balance December 31, 2021	954	C\$	8.48

**Stock-based compensation**

The Company accounts for stock-based compensation using the fair value method as prescribed by International Financial Reporting Standards 2 (“IFRS 2”). Under this method, the fair value of stock options and restricted stock units at the date of grant is expensed over the vesting period and the offsetting credit is recorded as an increase in contributed surplus. Awards with graded vesting are considered to be multiple awards for fair value measurement. An estimate of the number of awards that are expected to be forfeited is also made at the time of grant and revised periodically if actual forfeitures differ from those estimates.

For the three months ended December 31, 2021 and 2020, the Company recorded stock-based compensation expense as follows:

	<u>Three Months Ended December 31, 2021</u>	<u>Three Months Ended December 31, 2020</u>
Stock-based compensation expense	\$ 2,110	\$ 15

**13. Commitments and contingencies**

**Commitments**

The Company leases certain facilities with terms of less than a year that are classified as operating leases. Future payments pursuant to these leases are \$11,000 and \$28,000 as of December 31, 2021 and September 30, 2021, respectively, which are all due in less than one year.

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

**Contingencies**

The Company was in litigation with Lightwater Long Short Fund (“Lightwater”) during the years ended September 30, 2020 and 2021. The litigation was settled in December 2021 of approximately \$150,000, which was recorded in operating expenses for the year ended September 30, 2021.

From time to time, the Company is involved in various legal proceedings arising from the ordinary course of business. None of the matters in which the Company is currently involved, either individually, or in the aggregate, is expected to have a material adverse effect on the Company’s consolidated financial position, results of operations, or cash flows.

**14. Operating expenses**

	Three months ended December 31, 2021	Three months ended December 31, 2020
Payroll and employee benefits	\$ 8,618	\$ 6,439
Facilities	600	491
Bad debt expense	2,412	2,079
Billing	1,387	716
Professional fees	635	440
Marketing costs	336	128
Outbound freight	433	188
All other	1,405	1,048
<b>Total Operating expenses</b>	<b>\$ 15,826</b>	<b>\$ 11,529</b>

**15. Income (loss) per share**

Loss per common share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share amounts are calculated giving effect to the potential dilution that would occur from the incremental shares issued if in-the-money 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 price. For periods with a net loss, the potential dilutive shares were excluded because their effect is anti-dilutive.

**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**

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

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

	Three months ended December 31, 2021	Three months ended December 31, 2020
Net income (loss) for continuing operations	\$ (2,131)	\$ 1,366
Basic weighted average number of shares	33,346	28,177
Diluted weighted average number of shares	33,346	30,466
Total - Basic	\$ (0.06)	\$ 0.05
Total - Diluted	\$ (0.06)	\$ 0.04

The effect of instruments exercisable or convertible to common shares for the three months ended December 30, 2021 and December 31, 2020 were excluded from the calculation of diluted loss per share because their effect is anti-dilutive.

#### 16. Related party transactions

The Company has six market rate leases for office, warehouse, and retail space with a rental Company affiliated with the Company's Chief Executive Officer, the majority of which were entered into in 2015. The leases have a combined area of 74,520 square feet. Lease payments under these leases are approximately \$52,000 per month, plus taxes, utilities, and maintenance.

Expense for Board of Directors' fees were \$53,000 and \$45,000 for the three months ended December 31, 2021 and 2020, respectively. Stock-based compensation for the Board of Directors was \$578,000 and \$4,000 for the three months ended December 31, 2021 and 2020, respectively.

Key management personnel also participate in the Company's share option program (see Note 12). The Company recorded compensation to key management personnel the following:

	Three months ended December 31, 2021	Three months ended December 31, 2020
Salaries and Benefits	\$ 267	\$ 227
Stock-based compensation	1,096	—
Total	\$ 1,363	\$ 227

#### 17. Subsequent event

On January 3, 2021, the Company, through one of its indirect wholly-owned subsidiaries, entered into a purchase agreement to acquire At Home Health Equipment, LLC, (At Home), an Indiana based company. The purchase price was approximately \$13,117,000, of which approximately \$11,797,000 was paid in cash at closing, and approximately \$1,220,000 of holdbacks are payable on the six- and twelve-month anniversaries of the acquisition, subject to normal post-closing adjustments, if any. The Company expensed \$8,000 of professional fees in conjunction with the acquisition.



**Quipt Home Medical Corp. (Formerly, Protech Home Medical Corp.)**  
**AMENDED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) DECEMBER 31, 2021 AND 2020**  
(Tabular dollar amounts expressed in thousands of US Dollars, except per share amounts)

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Pro forma three-month revenues and net income of At Home had the acquisition occurred on October 1, 2021 are approximately \$3,200,000 and \$23,000, respectively. The Company is in the process of gathering the information required to allocate the purchase price to the acquired tangible and intangible assets and assumed liabilities as of the acquisition date.