

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017.**

**FORM 51-102F1**

**Date and Subject of Report**

The following Management Discussion & Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Certive Solutions Inc. ("Certive" or the "Company") for the nine months ended February 28, 2017. The MD&A should be read in conjunction with the audited annual financial statements of the Company as at May 31, 2016. The MD&A has been prepared effective May 1, 2017.

**SCOPE OF ANALYSIS**

The following is a discussion and analysis of the Company, which was incorporated on June 11, 2010, under the laws of the Province of British Columbia. The Company's head office is located at 1140-1185 West Georgia Street, Vancouver, B.C., V6E 4E6. The Company reports its financial results in U.S. dollars and under International Financial Reporting Standards.

**Overview**

During the nine months ended February 28, 2017 and the subsequent period up to and including the date of this MD&A, a number of significant and material events occurred, which are summarized in this overview and discussed in more detail elsewhere in the MD&A. All amounts expressed herein are in U.S. dollars.

**Material Events That Occurred During the Quarter Ended February 28, 2017**

1. On January 6, 2017, a total of 2,031,354 options were exercised by optionees for a total of \$406,270.
2. On January 24, 2017, the Company secured a bridge financing totaling \$518,000 by way of promissory note from a Canadian sophisticated investor. Interest on the financing was set at 10% up to and including its maturity date of January 24, 2019. Thereafter interest will accrue at 18% per annum calculated semi-annually. The promissory note is convertible into common shares of the Company at a price of \$0.11 per share. The lender secured a warrant as an integral part of the financing totaling 4,100,000 shares exercisable for two years from the date of the loan grant at an exercise price of \$0.11 per share.
3. On December 1, 2016, the Company issued a press release updating corporate affairs and referred to the growth in the Titan division. During the months of January and February several significant and material events occurred which have caused management and the Board of Directors to reflect on the appropriateness of making additional investment in the

Titan division, notwithstanding its growth and recently improved financial results. As a result, the Company and the principals of Titan have reached a settlement agreement which will be formalized over the coming months to divest the assets purchased by the Company back to the principals of Titan. The transfer price will be supported by an independent valuation of the assets being transferred, and detailed cash flow projections based upon our alternatives for the expenditure of cash in the attainment of consolidated break even sales volumes. Although the Titan division has indeed grown its gross sales volumes over the past several quarters, it is unlikely that it will contribute significantly to consolidated EBITDA given the current operating structure and the anticipated customer mix going forward. The product offerings of Titan are in a competitive market segment and securing higher margin new business has been challenging. While it is anticipated that new customers will be added, the nature and composition of the existing customer base may lead to diminishing revenues over time. Anticipated new customer onboarding will require a significant investment of capital to support potentially lower margin service categories. It is therefore, the Company's belief that this investment of capital could be better deployed in higher margin and less competitive opportunities. While January operating results for both divisions as reported, were very encouraging, the Company's deployment of capital resources needs to be focused on its most accretive division, Omega. Regional market development has continued aggressively with the Omega division which mitigates concerns about customer concentration. In the prior three-year period, Titan has not grown higher margin business, justifying no additional investment in light of the Omega opportunities. Omega has now commenced the onboarding of the previously referred to large mid-western contract, with a potential project life of four years. Ensuring our ability to service this account is fundamental to our growth. Recognizing our need to expend capital on the most accretive offerings possible and thus attain positive cash flow in the near term, it was mutually determined by both the Company and the Titan principals that they would be better served by a divestiture of the assets originally acquired in July 2014. It is management's opinion that there has been no appreciable increase in the asset value in Titan's customer relationships. This opinion will be supported by way of independent valuation.

4. On February 14, 2017, the Company announced that John Shackleton resigned as a director and chairman of the Board of Directors. Also, effective on February 14, 2017, the Company announced the appointment of Jeffrey Wareham as a director of the Company. Michael Lodge Bartlett, a director and vice chairman of the Company, assumed the role of chairman on February 14, 2017.
5. On February 23, 2017, Jack Saltich and Mary Ann Miller resigned from the Board of Directors of the Company.

## **Material Events That Occurred Subsequent to the Quarter Ended February 28, 2017**

1. Further to news releases dated September 24, 2014, November 19, 2014, February 26, 2015, July 28, 2015, and August 14, 2015, Certive has completed the acquisition of 100 percent of the equity in Knowledge Capital Alliance (“KCA”) effective March 13, 2017. This transaction is a restructuring of the asset acquisition of KCA that was closed effective August 31, 2014. It was determined that the acquisition of the equity of KCA would be complementary to the organizational structure of Certive and the KCA brand. During the past two years, KCA has steadily enhanced its delivery of process management solutions to state and county governments, particularly specializing in business process management for public health-related matters through the implementation of cloud-based applications. This has significantly improved KCA’s product offerings to agencies throughout the United States. The equity of KCA was purchased in consideration for a total of 1,350,000 common shares of Certive at a deemed value of \$0.30 per share. The deemed share price for this transaction was substantially higher than the Company’s market price on March 13, 2017. Certive’s guarantee of an outstanding note to a KCA shareholder in the amount of \$256,000 was forgiven. The equity transaction was therefore completed at a lower overall cost to the Company in comparison to the original asset based transaction.
2. On March 13, 2017 the Company announced the appointment of The Honorable Ed Holder, P.C., ICD.D to the Board of Directors of the Company. Ed Holder was elected as a Member of Parliament with the Government of Canada in 2008, serving with Prime Minister Stephen Harper. From May 2014 to October 2015, he served in the prestigious role of Minister of State (Science and Technology). During his seven year tenure as a federal Member of Parliament, he also sat on the Standing Committee on International Trade, the Standing Committee on Transportation, Infrastructure and Communities, and served as Chair of the Canada-UK Parliamentary Group. He is a member of the Privy Council of Canada.
3. On March 15, 2017 the Company announced that it issued a total of 35,000,000 voting, non-redeemable, non-participating Class A Preferred Shares to directors, officers, and consultants of the Company. By special resolution of the shareholders of the Company at its most recent Annual General and Special Meeting held on September 19, 2016, the Company was authorized to create a new class of shares, the Class A Preferred Shares, through the filing of a Notice of Alteration and Amended and Restated Articles of Incorporation that became effective on December 6, 2016. Shareholders authorized the directors to issue such number of Class A Preferred shares as deemed necessary from time to time in accordance with the resolution. Accordingly, thirty-five million Class A Preferred Shares were authorized and approved for issuance at a meeting of the directors on February 27, 2017. All thirty-five million shares have now been issued to a total of six individuals comprising directors, officers, and consultants of the Company. The Class A Preferred Shares are each entitled to one vote at any meeting of shareholders. The shares do not participate in dividends or liquidation of the assets of the Company on a preferential basis and are only redeemable subject to certain conditions. All recipients have entered into an agreement (the “Recipient Agreement”) regarding the issuance of such shares, the intention of which is to protect the rights of Common Shareholders and to prevent any potential

dilution to the financial interests of the Common Shareholders without the prior approval of the Common Shareholders. Each recipient of Class A Preferred Shares has agreed to accept these shares under the terms of the Recipient Agreement, which provides for the following:

- The Recipient will not be paid any dividends under the terms of the grant of the Preferred Shares and acknowledges that the grant does not provide for any claim to such dividends. The Recipient will vote the Preferred Shares together with the Common Shareholders on an equal basis.
- The Recipient acknowledges that the terms of the Class A Preferred Shares provide for a Right to Convert the Preferred Shares to Common Shares.
- The Right to Convert is triggered by a Liquidation Event as defined by the terms of the Class A Preferred Shares.
- The Board of Directors has the right to redeem these Class A Preferred Shares under the “Right of Redemption” terms of the Class A Preferred Shares.
- It is the intention of the Board of Directors to exercise this Right of Redemption prior to any Liquidation Event as defined in the terms of the Class A Preferred Shares.
- Recipient hereby acknowledges this expressed intention by the Board of Directors and agrees that such exercise will prevent the ability of the Recipient to exercise any Right to Convert if the Right of Redemption is exercised.
- If the Board of Directors exercises such Right of Redemption, Recipient hereby agrees to accept the Redemption Price provided for in the terms of the Class A Preferred Shares and will immediately return these Preferred Shares to the Company for cancellation.
- Recipient agrees that the Preferred Shares will not be transferred to any other person or entity other than back to the Company unless such transfer is approved by a majority vote of the Common Shareholders. Recipient acknowledges and agrees that his Preferred Shares will not be voted in that situation.
- In the event Recipient attempts to transfer Preferred Shares without proper approval, the Preferred Shares will be immediately redeemed and cancelled by the Company.
- In the event of a proposed transaction that involves partial compensation to the Recipient for the transfer of all or a portion of these Preferred Shares to a buyer other than the Company, Common Shareholders must approve such transaction. Recipient acknowledges and agrees that his Common Shares as well as his Preferred Shares will not be voted in that situation.

- The Board believes that the Recipient Agreement ensures that the interests of all Common Shareholders are fully protected. Moreover, the Recipient Agreement enables the Company and its directors to secure contractual arrangements with potential financiers or acquirers that will place significant enterprise value upon the Company. Insofar as Common Shareholders must approve any transaction involving compensation to the holders of the Class A Preferred Shares, the Company has provided that the interests of the Common Shareholders are protected.
4. On March 16, 2017, the Company announced the appointment of Moe Vela as Senior Corporate Advisor to the Company. An attorney by profession, Mr. Vela has had the distinction of serving with two White House administrations, first as Chief Financial Officer and Senior Advisor on Latino Affairs to former Vice President Al Gore, and, most recently, as the Director of Administration and a Senior Advisor to Vice President Joe Biden. Through his extensive business and entrepreneurial experience and national political profile, Mr. Vela has developed extensive national and global networks and relationships that he will leverage and utilize to support Certive's growth strategy.
  5. On March 17, 2017 the Company announced the appointment of Robert Kang as Director of Finance and Regulatory Compliance of Certive. Mr. Kang has, for the past year, provided outsourced regulatory compliance and financial consulting services. As the Company has grown, so has the need for additional resources to ensure that all regulatory filings and financial reporting functions are conducted in both a timely and efficient manner.
  6. On April 30, 2017, the Company signed a Loan Agreement with Leede Jones Gable Inc. in respect of cash advances made to the Company in November 2016 and January 2017 totaling \$800,000. The principal sum of the advances becomes due and payable on January 23, 2019 (the "Maturity Date"). Interest on the advances is set at 10% calculated semi-annually in arrears on a per annum basis save and except that interest on \$300,000 of the total advances shall increase to 18% on June 1, 2017 until the Maturity Date. Upon and subject to the provisions and conditions of the Agreement and subject to receipt of any required approval from securities regulatory authorities, the Lender shall have the right at such Lender's option, at any time prior to the close of business on the Maturity Date, to convert any part or all of the principal amount of the Advances, being \$800,000, into common shares in the capital stock of the Corporation at a price of CAD\$0.15 per share. In consideration of the risks assumed by the Lender in providing the Advances, the Corporation agreed to grant a common share purchase warrant to the Lender exercisable into 4,100,000 common shares of the Corporation at a price of CAD\$0.15 per share for two years from the date of the last Advance, which occurred on January 24, 2017. On a quarterly basis (to be calculated by the Company within 60 days of the end of each reporting fiscal quarter of May 31, August 31, November 30, or February 28), where the board of directors of the Company determines that the Company has available, on a consolidated basis, net free cash of greater than \$200,000 in lawful currency of the United States, and where the board of directors of the Company has no reasonable grounds for believing that (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due, or (b) the realizable value of the Company's assets would thereby be less than

the aggregate of its liabilities and stated capital of all classes, the Lender shall be entitled to receive up to 25% of the calculated net free cash as a redemption of outstanding balance of both principal and accrued interest on the Advances at that date, and any such payment shall reduce the principal and interest owed by the Company and outstanding at the time of such redemption.

7. On April 30, 2017 the Company agreed to enter into a settlement agreement with Titan Health Management Solutions Inc. (Titan) wherein the Company elected to sell the assets originally purchased from Titan in an Asset Sale and Purchase Agreement dated July 3, 2014. In support of the sale, the Company will complete a valuation of the business as at the date of the sale.

Pursuant to the terms of the Settlement Agreement, the Company may continue to sell all of the service offerings of Titan under a Sales and Marketing Agreement.

### **Summary of Corporate Status as at February 28, 2017**

As of the date of this MD&A, the Company's status is summarized as follows:

1. **Titan Division:** The Titan Division has operated profitably for the nine months ended February 28, 2017. The nine-month period results ending February 28, 2017, were consistent with the prior year. Gross revenues for the nine months ended February 28, 2017 were \$2,846,979 with a gross margin of \$1,437,777 or 49.4% and a NOI of \$629,880 or 22.0%. Not included in this calculation are costs recorded corporately but directly attributable to the Titan division that would otherwise reduce the NOI by approximately \$240,000 taking the adjusted NOI to 13%. During the quarter, several critical operating metrics of the Titan division became apparent to management. Most significant is that the customer concentration of the division left it vulnerable to a small contributing group of current customers that may be at risk. See comments above for further details.
2. **Omega Division:** The gross revenue for the Omega Division for the first nine months ended February 28, 2017 totaled \$1,039,782. The gross margin for Omega was (\$136,571). The loss (NOI) for the nine-months period was \$395,522. During the quarter, the Company engaged with Moe Vela to accelerate its expansion into regional markets as previously disclosed. At the date of this MD&A, the Company has identified a total of 14 facilities in the Pittsburgh area that are targets for our charge accuracy audit services. The revenue expectation for these facilities is significant. Additionally, the regional markets previously identified are in various stages of closure. The large mid-western system contract that was discussed in the MD&A for the previous quarter has now commenced onboarding. First revenues from this facility are projected to come on stream in August 2017. The Company has completed detailed projections on operating results for the year ending May 31, 2018. With the divestiture of the Titan division, all capital resources will be directed towards a) sales activities throughout the United States where the Company has C level access to administrators, supported by our new relationship with Moe Vela and b) to supporting the infrastructure necessary to enable rapid growth. Insofar as all gross revenues for the

Omega division are highly accretive to EBITDA and insofar as the division is highly scalable, it is the Company's goal to attain profitability from this division and to be focused on its potential for the near term.

3. Acquisition: The potential acquisition disclosed in previous MD&A's continues in force and effect. The capital necessary to close the transaction is in part being supplied by a commercial banking facility of \$7 million presently the subject of a term sheet.

## **FORWARD LOOKING STATEMENTS**

The information set forth in this MD&A contains statements concerning future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, forward-looking statements. These statements concerning possible or assumed future results of operations of the Company are preceded by, followed by or include the words 'believes,' 'expects,' 'anticipates,' 'estimates,' 'intends,' 'plans,' 'forecasts,' or similar expressions. Forward-looking statements are not guarantees of future performance. These forward-looking statements are based on current expectations that involve numerous risks and uncertainties, including, but not limited to, those identified in the Risks Factors section. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are reasonable, but any of which could prove to be inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements.

In this MD&A, the Company has specifically noted the forward-looking nature of comments where applicable. Generally, readers should be aware that forward-looking statements included or incorporated by reference in this document include statements with respect to:

- a) The Company's acquisition strategy, including the basis upon which the Company will evaluate acquisition criteria and the benefits associated with an acquisition.
- b) The Company's ability to identify geographically dispersed non-competing acquisition targets that possess vital hospital customer relationships and unique categories of business and to successfully complete each acquisition, including the transactions contemplated in the Letter of Intent.
- c) The identification of new lines of business within revenue cycle management for U.S. hospitals that are unique and provide value added benefit for hospital administrators.
- d) The ability to cross-sell different services between and among the Company's customers resulting from selected acquisitions.
- e) Expectations of both divisional profitability and comprehensive corporate profitability for each acquisition. The Company must continue to hold pricing in the absence of seeking offshore labor cost reductions to remain competitive and thus prevent a commoditization of its services.
- f) Expectations regarding the ability to raise capital to fund increasing working capital requirements and achieve sustainable near and long term growth. Partially cash funded

acquisitions may lead to substantial dilution if the majority of the acquisitions are stock based.

- g) Inability to show immediate and continued outperformance of incumbents being replaced. The path to better economics in this industry is to price at a premium. In order to premium price however the Company must offer a greater value proposition to the customer than the prior incumbent.
- h) The Company must be mindful of a downward move by upper market tier participants who recognize the opportunities in the tier 3 highly fragmented market space.
- i) The Company must assess the relative risk associated with acquisition size, category of revenue integrity services provided and the need for working capital to support the growth of each acquisition.
- j) The Company must be mindful and reactive to disruption in the U.S. healthcare markets and target, both acquisition opportunities and internal growth with a focus on this disruption to achieve maximum rates of return on internal cash.
- k) As the Company expands its service offerings, it will need to ensure that there is a constant vigilance over new and changing regulations that will impact the ability to remain compliant.

## **General History**

The following is a chronological description of the Company's history and the basis for its entrance into the revenue cycle management ("RCM") sector of the U.S. healthcare industry:

- The Company changed its name to Certive Solutions Inc. in October 2013 to pursue sales and marketing opportunities as a business process management provider focused on revenue lifecycle management in the U.S. healthcare industry. The Company's Chairman, Mr. Shackleton, was instrumental in bringing mission critical expertise to the Company. Mr. Shackleton resigned from the Board for personal reasons during the quarter.
- In late 2013 and largely due to a market assessment performed by management in the fall of 2013, the Company narrowed its strategic focus to the provider side of the U.S. healthcare industry and specifically to U.S. hospitals, who wrote off between 3% and 15% of their total revenues to denied claims for a variety of reasons.

In March 2014, the Company entered into a strategic relationship with Titan, a company with over twelve years of domain expertise supplying revenue cycle management services on an outsourced basis to U.S. hospitals. The Company's technology and capital formation expertise combined with Titan's knowledge of the many opportunities in revenue cycle management, led to a logical partnership. Ultimately this led to the Company's acquisition of the Titan assets in July 2014 and the integration of Titan's management team and staff into the Company's operations. Subsequent to the quarter end, the Company and the Titan principals have concluded that the goal objectives associated with the zero balance business operated by the Titan principals is incongruent with the long term strategic plan for the Company and accordingly the agreement for the Titan principals to repurchase the assets acquired by the Company was determined to be the most equitable way to minimize the



Company's expected future capital commitment to the division and yet not minimize the opportunity for the Titan principals.

- The acquisition of the assets of Knowledge Capital Alliance Inc. (KCA) closed on August 31, 2014. From June 1, 2014 to that date, the Company operated KCA pursuant to a transition services agreement, which provided among other things complete financial control of the enterprises until close of the transaction. This has enabled the Company to report consolidated revenues from June 1, 2014 onward. KCA provides business process management solutions to public health departments at both the state and county level. KCA has developed an automated dashboard tool set and workflow technology that will be offered to over 2800 public health organizations throughout the United States. Moreover, the principals of KCA will immediately begin to support the Company's consultative efforts as it seeks out new lines of business within revenue cycle management of U.S. hospitals. Certive recently completed the acquisition of 100 percent of the equity in Knowledge Capital Alliance ("KCA") effective March 13, 2017. This transaction was a restructuring of the asset acquisition of KCA referred to above. It was determined that the acquisition of the equity of KCA will be complementary to the organizational structure of Certive and the KCA brand. During the past two years, KCA has steadily enhanced its delivery of process management solutions to state and county governments, particularly specializing in business process management for public health-related matters through the implementation of cloud-based applications. This has significantly improved KCA's product offerings to agencies throughout the United States. The equity of KCA was purchased in consideration for a total of 1,350,000 common shares of Certive at a deemed value of US\$0.30 per share. Certive's guarantee of an outstanding note to a KCA shareholder in the amount of US\$256,000 was also forgiven.
- On July 15, 2015, the Company acquired the assets of Omega Technology Solutions LLC (Omega). With the acquisition of Omega, the Company adds a technology base and the ability to provide charge capture services on a retrospective and prospective basis and expands its customer footprint to approximately 100 hospitals. Omega has led the revenue cycle industry in charge capture audit and recovery services for hospitals since 1992. Omega has made a significant investment in revenue integrity analytics technology that is the foundation for its delivery of revenue services and cloud products that identify revenue opportunities and address compliance issues. Omega's solutions deliver real-time analysis and capture of unidentified charges not captured by the hospital, and prevention of charging and billing issues that reduce or delay reimbursement. Additional services offered include comprehensive claims analysis for coding integrity, and revenue leakage prevention. Omega has over 45 well developed, long term relationships with hospitals on the east coast of the United States and has recovered over \$180,000,000 in aggregate since its incorporation 20 years ago. Omega has over 25 employees engaged in the revenue cycle process, and 47 hospitals currently under contract.

## General Comments on the Company and its Current Business in Revenue Cycle Management for U.S. Hospitals

### REVENUE CYCLE MANAGEMENT FOR HOSPITALS – A DEFINITION

All healthcare providers depend on three types of payment sources: self-pay by the patients, insurance company benefit payments and government-based programs (principally Medicare and Medicaid). The process of billing and collecting such payments has grown more complex over the years as insurance and governmental programs have become more intricate. Uninsured and the higher deductible insurance policies have forced a greater need to collect payments directly from patients. Many hospitals lack the technical sophistication to adequately bill and collect from these various payment sources.

Revenue Cycle Management (“RCM”) systems have developed over the past twenty years to address these needs of hospitals and other healthcare providers. The RCM process is composed of the following segments:

- Scheduling and Eligibility
- Pre-Registration and Financial Clearing
- Admitting, Registration
- Point of Service Charge Capture
- Case Management
- Coding
- Pre-billing and Billing
- Submission to Payers – Patient and Third Party Payers
- Payment Posting
- Denial and Payment Analysis
- Self-Pay and Collections

The Company provides revenue cycle services to U.S. hospitals. Certive identifies categories of opportunity within the traditional revenue cycle for hospitals and on an outsourced basis provides effective recovery of revenue on claims that are retrospectively assessed as underpaid or missed in the billing process. The goal is to optimize reimbursement, increase operational efficiency, and minimize the cost of compliance risk for Certive’s customer.

Certive Solutions Inc. operates its wholly owned subsidiary Certive Technologies Arizona Inc. (“Certive Arizona”), an Arizona corporation, located in Scottsdale, Arizona. Under Certive Arizona there are three operating units, Knowledge Capital Alliance (“KCA”), Titan Health Management Solutions (“Titan”) and Omega Technologies Solutions (“Omega”).

### CERTIVE ARIZONA’S RCM PLATFORM

Certive Arizona has developed a business plan to provide a comprehensive platform to deliver individual and coordinated services for the segments of RCM following the delivery of healthcare services: Coding through the Self-Pay / Collections segments. At present, the Titan and Omega divisions provide service offerings in the following areas:

## Charge Accuracy Audits

This includes audit of patient charts against the medical record to capture charges for services that were performed but not billed to payers. Fees are based on a percent of the lost charges that are recovered.

## Claim Audit and Recovery services. Zero Balance Recovery.

This includes the retrospective review of payments made from payers based on the contracts – this identifies underpayments based on improper billings by the hospital, improper contract interpretation by the payers and appeals of claim denials. Fees are usually based on a percentage of additional revenues paid to the hospital as a result of the audits and appeals.

The segment of the post-care delivery RCM continuum that currently is not provided by Certive Arizona is Self-Pay and Collections. The acquisition disclosed but not yet closed by the Company will significantly increase Certive's penetration of the RCM market with additional highly valuable service offerings in the growing self-pay and collection segment of the industry.

Certive has identified a Self-Pay and Collections group with a long history of profitability and expertise that is located in the northwestern geography of the United States. A Stock Purchase Agreement is in final negotiations. The business is 100 percent owned by the vendor, who has operated these entities for over 20 years. Certive Arizona will be the Buyer of 100 percent of the stock of two entities.

The acquired companies will become an integral part of the Certive Arizona RCM Platform. Its integration into the Platform will enable the Company to offer a full range of post-care RCM services to its current customers and provide a more attractive and comprehensive package of RCM services to many prospects in the healthcare arena. The acquisition brings a customer base that is anchored by two major hospital systems and its related providers. There is a long-term relationship that has been verified as dependable going into the future.

As a first step in the acquisition, the acquisition target has entered into a Business Development Agreement with Certive. This Agreement allows Certive to market the target's services on a nation-wide basis for a percentage fee of the revenues generated by the target.

Identifying new opportunities not easily identified by other participants in revenue cycle is a distinguishing characteristic of Certive which remains the key undertaking of the Company. Leveraging trusted relationships that have matured over many years with all Certive's customers, is a key component of the long-term strategy. Defining a positive future for the challenges facing U.S. healthcare and, in particular revenue recognition, will be predicated not only upon services to providers and payers alike, but also defining the new information landscapes that will emerge and providing technology toolsets that enable managers of large hospital systems to better predict financial outcomes for services rendered. Certive continues to approach its customers with this unique culture and identity.

Certive intends to selectively grow its access to new customers through acquisition of companies that provide services to hospitals that are much needed and relate to the increasing urgency to identify better overall outcomes on reimbursement. The footprint alone is merely a starting point. With a growing customer base, the Company can sell more services to its customer base and cross sell offerings between and among those customers and develop analytical tools to mitigate three primary risks associated with any provider business:

- Eligibility/Enrollment Risk
- Patient Services Risk
- Collection Risk

The opportunity is to use the Company's analytical capabilities to identify missing information links in the revenue cycle, disrupted by ICD 10, and to create new service and product offering uniquely tailored to the changes impacting healthcare delivery and payment.

Certive has an Advisory Council, with members that cumulatively have credentials which are unrivaled in the U.S. healthcare market. Each Advisory Council member will be given a special project associated with Certive's strategic and tactical plans, together with time lines for completion.

The purpose of the Advisory Council is to provide direction, guidance and special project based support to management in the design and implementation of business strategies aimed at creating overall near and long-term enterprise value. The Advisory Council was formed specifically to assist management and the Board of Directors in determining the best strategies to effect growth in an ever-changing U.S. healthcare market. Current members of Certive's Advisory Council are:

- Dr. Arthur Pelberg, an internal medicine specialist, served as the President and Chief Medical Officer of Schaller Anderson from 1999 to 2007 and brings to the Company rich clinical and senior level healthcare operations experience.
- Fred Hatfield, formerly CEO and COO of Aetna Medicaid and head of acquisition integration for Schaller Anderson.
- Tim Hyland, former CFO of Schaller Anderson.
- Tom Marreel, formerly senior vice president of Schaller Anderson.
- Steve Schramm, the founder of Optumas, an actuarial analysis organization for large healthcare purchasers. Mr. Schramm's background brings to Certive the knowledge to design predictive analytics toolsets to provide its customers with meaningful information sourced from vast quantities of disparate data.
- Charlotte Jacobs is a senior Advisory Strategy Client Executive with Cerner, a leader in health information management. Ms. Jacobs brings to Certive a unique perspective on the dynamics of U.S. healthcare reform and its impact upon companies such as Certive.
- Jeffrey Benton is currently the managing director of Fairfield Advisors, a hedge fund specializing in market structure arbitrage and volatility strategies. Mr. Benton brings to the Advisory Council years of experience in the translation of business operating strategies to investment information and tools that will, in Certive's case, serve to better enable effective investor relations communications. Mr. Benton is a distinguished and highly regarded

member of the U.S. investment community, having served on a number of New York Stock Exchange committees over the years. Mr. Benton is a former Governor of the New York Stock Exchange.

- Scott Ivers currently the CFO of Kirke Financial and a member of the acquisition committee.
- Don Gilbert recently joined the Advisory Council and has extensive background in healthcare, particularly in the State of Texas where he served as Secretary of Health and Human Services under Governor George W. Bush.
- Michael Marshall, CEO of e5 Workflow Inc. joined the Advisory Council in December 2015 and provides to Certive, operational capabilities in revenue cycle management with hands on expertise in all aspects of this industry.
- William Dagher is a healthcare professional and revenue cycle expert.

The Company's mission is to demonstrate through execution, operational excellence in identifying, billing and collecting missed charges through an audit and collection process that blends unique technologies and workflow tools together, thus providing usable billing related information and enhancing integrated collection results for customers.

Members of the Advisory Council have all invested in Certive and are committed to assisting in charting its course through growth by acquisition and organically. The Advisory Council will meet formally four times annually and informally on a regular basis.

## **The Company's Business**

The Company is a Scottsdale based, British Columbia domiciled, reporting issuer, publicly traded on the Canadian Securities Exchange (CSE: CBP). Effective September 16, 2014 the Company's shares began trading on the Frankfurt Exchange (FWB: 5CE) and on July 15, 2015, the Company's shares were quoted on the OTCQB Capital Markets in the United States under the trading symbol "CTVEF". The Company has two wholly owned subsidiaries; Advantive Information Management and Certive Technologies Arizona Inc., each operating as independent subsidiaries.

Effective June 1, 2014, the Company, through Certive Technologies Arizona Inc., began operating two divisions that are accounted for separately before consolidation; one that reports the operating results of Titan, and the other that reports the operating results of KCA. This was accomplished through transition services agreements that provided the Company with full operating control of both entities commencing on that date. On July 15, 2015, the Company completed the acquisition of Omega and accordingly, effective July 15, 2015, the Company commenced operating a third division on an identical basis as Titan and KCA. The transition services agreements remain in effect as at the date of the MD&A.

## **Description of the Business**

### Executive Summary - The Business

Certive principally provides charge accuracy services that support revenue cycle management in the central business offices of U.S. hospitals by targeting revenue categories where reimbursement recoveries can be secured through a combination of highly skilled clinical staff and proven workflow tools.

The U.S. healthcare market is highly disruptive and currently accounts for in excess of 30% of the U.S. GNP. Current challenges to the Affordable Care Act, specifically reform, and changing reimbursement models add fuel to this disruption. As provider solvency issues grow, increased government scrutiny will force new costs upon an already choking system. As increased copays and deductibles put more responsibility on the patient, the self-pay component of provider revenue continues to rise making providers concerned for their future. C-level hospital and physician group executives not only need better business process management tools to equip them for survival, but more importantly, a focused new solution for this specific need. The need for relevant information that defines operating risks is becoming increasingly more important. Access to information immediately prior to the delivery of service, derived from already existing data that quantifies patient financial risk, patient service risk and patient collection risk, will become the holy grail, as this disruption determines who will survive.

The delivery of healthcare is becoming consumer-centric. Certive's goal is to be strategic in its acquisition plans and organic growth-based business model to enable Certive to take advantage of this change. If Certive can improve the financial performance of its U.S. hospital clients, Certive will be a leader in this industry. By targeting accretive acquisitions that expand Certive's customer reach with services that are needed for success and leverage its presence for organic growth, the Company will rise above its competitors. Using analytics and Certive's vast database of historical data, the Company will create unique relevant operating models for its customers to that address the fundamental risks associated with running any hospital. With that, the value of Certive will grow.

Certive seeks to acquire a major player in the self-pay sector of the revenue cycle, which combined, represent in excess of \$15,500,000 in annual revenues and \$3,200,000 in annual EBITDA. This acquisition places Certive squarely in the most lucrative and growing segment of revenue cycle management (see comments above).

Certive is a nimble company, rich in domain expertise with a clear vision of the U.S. healthcare landscape. Market forces will naturally identify new and aggressive rainmakers, unchained and reactive, that improve the management of provider financial viability. Certive is positioned to be a leader with over 300 cumulative years of U.S. healthcare expertise on its Advisory Council, each member having engaged with the Company in special projects associated with the goal of delivering this comprehensive service offering to U.S. hospitals.

Certive specializes in recovering cash for hospitals by auditing charts and comparing them to the medical records to discover items and services performed but never billed to the insurance carriers. Certive's has over 20 years of experience providing these services and with that, access to vast quantities of retrospective data from which to develop the analytical tools necessary to effectively manage risk.

## The Certive Enabler - What Will Make Certive Win

- A. Certive is particularly fortunate to have an Advisory Council with over 300 years' collective experience in the U.S. healthcare market. The Advisory Council will continue to grow in size. Every member has invested in Certive, each of whom has special projects for which they are compensated on a performance basis. Certive's ability to be observant and reactive to the ever changing and disruptive U.S. healthcare environment is founded on an expansion of the knowledge depth of this Advisory Council, identifying new participants that provide an "inside" track on changes within the sector. These changes will impact Certive's strategies and will affect its enterprise value. Certive will be a strategically positioned technology-enabled service provider to its current and expanding customer base as well as a strategic partner to large players in the industry who would seek nimble, well-run and leveraged relationships.
- B. Competitive Landscape: There are three categories of competitors: a) In-sourcing by Certive's target hospital clientele; b) indirect competitors that offer technology solutions, and c) direct competitors that offer services.
- a. Hospital In-Sourcing: This is the status quo. Hospitals do not have the internal resources and efficiencies to do this alone and have long relied on vendor relationships to help manage through the complex reimbursement and revenue cycle process and this will not change. Increasing complexities, reduced reimbursement, focus on outcomes, rising costs of care, consolidation, and changes in the regulatory environment have resulted in increased financial pressure on the hospitals and the need for improved efficiency. All this results in an increased market opportunity for vendors who can deliver.
- b. Indirect Technology Vendors:
- i. Several vendors such as MedAssets, Craneware, etc. provide technology solutions that attempt to solve the hospitals problems. Hospitals, however, are resistant to further reinvestment in more "systems" and need to have their problems solved, when in fact, these solutions actually contribute to the problem by often reducing claim value allowing greater leakage to occur. Often, hospitals are frustrated with pure technology solutions as, in the absence of a strong service component, they fail to deliver on the promised value proposition.
  - ii. Large health information management (HIM) providers such as Cerner and Epic are technology suppliers to the industry that are seeking to add a viable service component to their revenue models. In the absence of acquisition strategies, they are unlikely to move fast enough to catch the changing landscape in the services model. They do however possess unique access to new customers and every implementation of the systems raises a large revenue leaking issue for the hospital that must be addressed. Certive on the other hand, is a service company with net free cash flow that can quickly adapt to change and identify risk management solutions that become useful

“extenders” to the current services offering of these providers. Certive then becomes a very important piece of the puzzle to these competitors who are ill equipped to move quickly. Certive, therefore, treats these companies as a source of business, NOT direct competition.

c. Direct Service Competitors:

- i. Tier 1 players such as Accenture provide comprehensive services to the industry with a “big” service model. They are limited in number. These companies often are engaged with the large hospital systems and are subject to the same “big” inflexibility of larger corporations, are costly, and do not address the core leakage issue leaving white spaces and large revenue leaking problems un-addressed.
- ii. Tier 2 players are medium sized players owned by private equity that are built to sell and have no domain capacity other than what they bought and little capacity to strategically think quickly. There are a handful of these players. Private equity is attracted to this space, which validates to some extent the opportunity, but private equity firms need to deploy large sums of capital which often results in ineffective returns on cash invested. Some of these companies could become larger future acquisition targets for Certive.
- iii. Tier 3 companies are smaller players that are part of the fragmented nature of this tier. They have customer access, and good principals, but are cash limited and have no long-term vision for how they fit into the market. That makes them perfect acquisition targets for Certive where it could acquire attractive clients and/or service niches, layer in its strategies, use the vast data it acquires to drive the development of better tools for long-term risk management and become a sought after enterprise.

### Business Definition

The Company is a technology enabled service provider in the Revenue Cycle Management (RCM) segment of the U.S. healthcare industry focused on claims audit and recovery for U.S. hospitals.

The Company is also engaged in the provision of business process management solutions to state and county health departments in the U.S. and in particular in Maricopa County, Arizona. Through the acquisition of KCA, the Company delivers these services.

Revenue cycle management refers to the creation of a valid bill to insurance companies and government agencies in an effort to collect payment for services provided. The payment of these services has at least once been denied to qualify as an RCM opportunity. Often, the payment for services has been denied for simple reasons such as a “miscoding” (using an inaccurate reimbursement code or labeling code for services at the time of being provided). With the coding changing on an annual basis, this has become a growing problem. Payment for services is regularly denied because payment requests have been made through incorrect channels or with an incorrect



cadence implying a workflow issue that can be addressed. In total, these errors have created a *U.S.-only* total available market (TAM) for recovery of *~\$50 billion annually*. Industry statistics on U.S. RCM TAM growth tracks with current figures (RCM for Tier 3 space is 5% of total annual billings – which equate to *~\$1 Trillion USD*) and will grow secularly with overall health claims growth

### Critical Success Factors to the Core Business

There are several key indicators for the Company's success in the claims audit and recovery sector of the U.S. RCM market segment as follows:

**Connectivity and Credentialing:** The U.S. hospital market is comprised of hospitals that are run by a closely associated group of CEO's and CFO's who know each other as a result of migrations from hospital to hospital as industry challenges demanded changes to C level executive positions. Insofar as they are the only point of contact for vendors in the RCM space, it is critical to be connected through association and more importantly to be highly regarded and credentialed in the provision of audit and recovery services. The Company's acquisition of the assets of Titan and Omega brings with it over twelve years of service to this market and a highly credentialed and well-recognized management and staff who have performed seamlessly for their hospital customers.

**Technology:** The Company intends to grow through acquisition of RCM companies providing services similar to that of Titan and Omega. It is essential that the Company utilizes internally adaptable and compatible cloud workflow and analytical tools to address the many business opportunities in the RCM market. The acquisition of the Omega assets brings with it a suite of software tools utilized by Omega in the delivery of their business that are portable to Titan and other acquisition targets. These tools and others will enable scaling of the consolidated enterprise which is the key to growth and claims adjudication.

**Domain Expertise:** The Company acquired over 70 years of combined U.S. healthcare expertise. The principals of Omega have worked on both the provider and payer side of the industry and have an intricate knowledge of technical, regulatory and clinical landscapes necessary to navigate the target opportunities. With the establishment of the Advisory Council, the Company further enhanced its domain expertise by securing the input and direct contributions of seven highly credentialed individuals with a collective 300 years of expertise in U.S. healthcare (see Advisory Council roles below). This is perhaps the most important component in the Company's assessment of critical success factors.

### **Lines of Business**

#### Charge Accuracy Audits

**Revenue Integrity Analytics:** Analytical software tools are utilized by Omega, combined with investigative expertise to identify risks and opportunities in the revenue cycle. Revenue integrity analytics services are offered on a real-time basis to analyze charging and billing issues that reduce

or delay reimbursement. These services include claims analysis for coding integrity, audit and recovery of missing charges and analysis of revenue cycle for improved performance.

**Revenue Recovery Services:** This comprehensive clinical review of outpatient claims ensures that all documented items were billed, that all billed items were charged appropriately, and that all payments were in accordance with designated contracts

**Missing Charge Software:** OCExaminer software was developed based on nearly 20 years of experience in performing revenue recovery. Omega offers exclusive lost charge edits that are designed to quickly identify revenue enhancement opportunities

**CDM Integrity Software:** The charge master is the heart of the hospital's revenue cycle. Omega's ChargeMASTER application is designed to ensure that the hospitals charge master is complete and compliant. ChargeMASTER provides real-time validation, unlimited licensing, and iPhone™ simplicity, allowing hospital staff to quickly and easily maintain the clinical data management (CDM).

**Contract Analysis Service:** Hospitals are typically reimbursed in accordance with contract terms. Omega has developed proprietary technology that facilitates a quick analysis of claims information to ensure that payment is being made correctly.

**Remote Coding:** Increasingly, HIM directors are turning to outside resources to keep accounts moving. Omega has a large staff of certified coders to provide outsourced remote coding.

## Technology and Scale

A brief description of the software products is set forth below:

i) ChargeMASTER: ChargeMASTER is a comprehensive resource for hospital chargemaster and management information system (MIS) staff. Since it is a web-based application, *ChargeMASTER* is available to analyze the CDM any time. The system can instantly pinpoint items that need to be updated for regulatory compliance and identify new or revised codes that will increase reimbursement yields.

*ChargeMASTER* contains 3 modules:

- Coding Alerts: invalid/incorrect Healthcare Common Procedure Coding (HCPC)/Current Procedural Terminology(CPT)/Revenue Codes, Fraud and Abuse Alerts
- Pricing Analysis: uniform pricing issues and charges that are below Outpatient Prospective Payment System (OPPS) payment rates
- CDM Modeling: Companion Code models, CPT department models

In addition, *ChargeMASTER* provides *information* to assist the user in identifying possible *solutions*.

A *ChargeMASTER* report completes the following functions and is used internally by Omega to provide the following revenue integrity services to its customers: Shows how/where to immediately bring the CDM into regulatory compliance, identifies coding errors that would cause claims to be rejected, identifies linked (companion) codes that are missing from the CDM, identifies charges that are below OPPS rates, and shows how to correct errors so they do not recur.

ii) OC Examiner Charge Capture Software: OCExaminer delivers unique charge capture software designed to help hospitals optimize its revenues. Omega's 20 years of experience in performing hands-on lost charge recovery engagements has resulted in the development of an unmatched revenue capture software. OCExaminer is designed to analyze claims to ensure that any potentially missing charges are identified prior to submitting the bill.

There are five core components of OCExaminer's (Charge Accuracy Audits) edits:

- Interventional Radiology
- Drug Administration
- Carve Outs
- Omega's Proprietary Edits
- User-defined Edits

OCExaminer typically identifies between an 8% and 15% potential error rate on previously scrubbed claims.

It also helps ensure compliance by automatically checking for:

- Medicare and Medicaid coding issues
- RAC alerts
- NCDs and LCDs

iii) One Point: **OnePoint** is a comprehensive resource for hospital and MIS staff since it is a web-based application.

**OnePoint** contains 6 modules;

- ChargeMASTER
- OCExaminer
- Patient Eligibility Determination
- Claims Management
- Remittance Advices
- Work Flow for both ChargeMaster and OCExaminer

### **Audit Collection and Recovery**

The Company provides claims audit and recovery services through five principle lines of business:

**Zero Balance:** This line of business represents the auditing of claims to identify underpayments by comparing actual payments to contracted terms for specific procedures. Recovering the

differences between the two is “zero balance”. The Company enters into long term contracts with its hospital customers to collect these claims and earns it fees based upon a revenue sharing relationship with the hospital in accordance with the contractual terms between the two. Generally, the Company’s proportionate revenue sharing contracts provide for a 30% payment on recovered amounts.

**Billing Support:** The Company provides a front-end service to hospitals and other third party providers, analyzing claims prior to submission for payment to commercial insurance companies. The provision of this service to the Company’s customers is clear evidence of a trusted and highly credentialed reputation insofar as the hospital seeking this service is relying heavily on an outside third party to support the entire billing process. The Company generally charges a fee for this service based upon time at a rate of cost plus 40%. All overheads are absorbed into the cost calculation.

**Early Out:** Claims are typically queried by payers for a variety of reasons. As claims are returned for further information, a backlog of partially completed claim filings results, which if not resolved before the expiration of the contractual period between the hospital and the payer, will result in the claim being denied. “Early out” refers to the process of acting on claims in the work-in-process bundle before they reach contractual expiration. This service is typically provided on a revenue share basis similar to Zero Balance.

**Clinical Review:** As the name implies, this service involves a review and audit of claims that have been denied for clinical reasons. The Company earns its fees from this line of business on a revenue share basis. Generally, this service is supported by nurse practitioners who are skilled in determining medical necessity etc.

## **Revenue Integrity in Healthcare**

Healthcare providers have long relied on conventional revenue cycle management practices to drive and ensure financial performance, yet most are not collecting all the revenue to which they are entitled. This disparity – the gap between the amount of revenue that providers are entitled to and the amount of reimbursement eventually received – is called revenue leakage, and it’s a significant problem. Vast amounts of reimbursement are lost daily due to inaccurate pricing, charging, and coding of services and supplies related to patient care. Most healthcare organizations realize they’re missing revenue, but are unable to detect the source or extent of the leakage.

In today’s healthcare environment, optimal financial performance requires more than cost reduction strategies, random audits, and denial management. Recent studies suggest that 92 percent of hospitals lose money on outpatient services – the fastest growing segment of hospital billable services – and having to redo medical necessity denials costs some hospitals more dollars than they ultimately receive in collections. This adds up to lost revenue contributing to the negative margins experienced by nearly one-third of hospitals. Moreover, today’s financial and labor market forces are dictating that healthcare providers do more with fewer resources. At the same time, they must deliver the outstanding quality care their communities deserve, while abiding by the government stipulations designed to protect and regulate the industry.

## **Drivers of Revenue Integrity:**

Those who focus only on decreasing costs lose out to those who focus on optimizing revenue. According to a recent Thomson Reuters report, the most profitable hospitals derive more of their advantage from enhancing revenues than from controlling costs and, spending more for supplies, drugs, and other direct expenses than their less profitable counterparts. Also, they pay higher salaries and benefits, but have more productive employees, offsetting higher compensation levels. At best, reducing costs represents a small fraction of full revenue potential. A comprehensive revenue integrity program is needed.

Historically, healthcare organizations had to focus primarily on whether reimbursements were accurate. Even now, some are still struggling to get accurate claims out the door with little time or resources for meeting new challenges. Mounting concerns about rising costs, compliance requirements, and reduced reimbursement are further complicated by the increased number of auditing entities. For example, The Patient Protection and Affordable Care Act has created an additional Recovery Audit Contractor (RAC) program for Medicaid with the goal of identifying and recouping over- and under-payments in that program. Hospitals must be prepared to receive inquiries – from multiple audit entities from federal, state, and commercial programs – that will increase their operating costs and burdens.

## **Charge Accuracy Audits:**

One of the most common sources of revenue leakage is related to improperly captured or incorrectly billed charges for procedures and supplies. Hospitals may know they're losing revenue, but fail to realize the extent to which incorrect charging and coding contribute to the problem. Further, most hospitals lack the ability to see into their charge capture business processes and data in a way that empowers them to identify the specific sources of revenue leakage – where their actions are out of alignment with industry best practices – and then to stop the leakage at its source. The greatest charge capture risks exist in high-volume, large revenue-producing departments, and in areas with complex coding requirements such as cardiology, radiology, and pharmacy.

Pharmacy is a prime example, where the root of the problem lies in the gap between the pharmacy spend data and the Chargemaster data. Possibly the greatest potential for leakage occurs when reimbursable medications are missing or miscoded in the Chargemaster. A single erroneous code can cause every transaction entered against that code to be wrong, resulting in potentially millions in lost revenue. A single coding error can be caused by something as simple as a typo in a dispensing cabinet. There is no way to detect such a typo without comparing the pharmacy spend data to the Chargemaster data and looking for specific products being purchased but not successfully billed.

## **Denials and Repayment:**

The practice of finding and fixing issues on the back end of the revenue cycle (downstream) results in excessive reworking of claims to fix the same errors repeatedly, as well as a greater volume of denials and delayed payments. In addition to lost revenue, efforts to resolve these issues represent a significant drain on workflow and financial resources. Repayment of revenue captured

incorrectly leads to substantial loss. If an organization is not consistently and completely compensated over time, serious financial liability ensues.

Moving forward with a more systematic means of identifying and addressing errors is often met with resistance. A sensible solution requires a fundamental shift from quantifying returns on investment (ROI) based on errors found downstream, to a process that ensures industry best practices are followed from early in the revenue cycle all the way through to the measurement of real-time transaction accuracy. Making a successful transition depends on a high level of commitment to consistency, evaluation, and accountability, and a proactive plan for achieving these best practices.

### **Market Opportunity/ Revenue Cycle Management (RCM)**

**Industry Structure:** The RCM industry is comprised of the following three tiers that deliver services to U.S. hospitals;

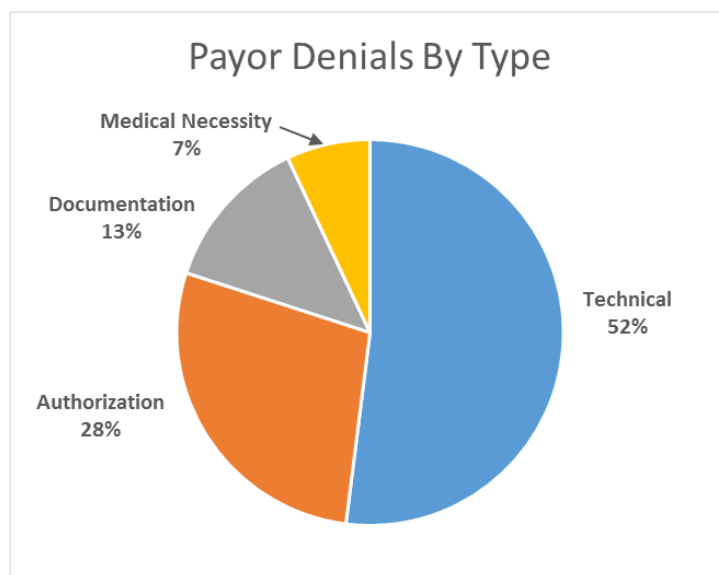
Tier One is the domain of large consultancies with multi-disciplinary practices. Their targets are large enterprise deployments.

Tier Two is comprised of vendors who generate between \$100 million and \$600 million in annual revenue. There are less than 5 competitors in this tier and they are typically targets of private equity aggregators.

Tier Three is comprised of many smaller vendors who generate between \$2 million and \$10 million in annual revenues. This segment is highly fragmented and largely undercapitalized. Companies in this tier, however, have great connectivity with their customers and are generally more resilient in supporting their customer's needs. This segment represents the acquisition target market for the Company.

The total addressable market (TAM) for RCM in the U.S. hospital market approaches \$1 trillion today. Recovered revenue on denied claims represents approximately 5% of the industry value or \$50 billion annually. While outsourcing claims recovery is in its infancy, logic would suggest that the industry must seek specialized outsourcing solutions simply, to survive and control cash in a largely cash-starved environment. Changing regulations at both federal and state levels, the introduction of ICD 10, and other factors affecting data workflow will demand both experienced and trusted outsourcing solutions combined with cloud based workflow that enables rapid scale. Since a significant percentage of the RCM hospital market is serviced by Tier Three providers, and since most lack the technology to scale and the capital resources to implement, acquisition opportunities abound.

The differentiating advantage will be technology and the Company recognizes the importance of implementing internal solutions to support the services offered to its customers. Systems, information and recovery process integration are the keys to maximizing recovery of denied claims. A marginal loss in gross dollars associated with denied claims generally has a significant impact on net operating profits. The following graph demonstrates the categories of denials by type.



## Market Opportunity

U.S. hospitals write off between 3% and 15% of their annual revenue to denied claims as a result of coding errors, lack of pre-approvals, lapsed coverage or category allocation. Furthermore, over 50% of these denied claims are abandoned with no intervention whatsoever.

The state of U.S. healthcare is trending towards increasing complexity and with that comes the need for trusted service providers that can support existing operations without disrupting them and provide a much-needed result; more efficient claims collections processes. Decreasing reimbursements, increasing regulatory complexities, a deteriorating payer mix, increased patient financial responsibility, significant compliance hurdles and a new consumer driven system are all adding to the very real opportunity for strategically well positioned, aggressive and trusted providers.

The Company intends to be highly opportunistic and strategic in its approach to this opportunity by leveraging its skilled industry knowledge and developing a clear and concise approach to acquisition opportunities, evaluated based largely on the connectivity of customer contracts to the acquisition target, the ability to maximize recurring revenues by extending contract terms and expanding service offerings to the targets existing offering and demonstrating CAGR of at least 30% annually.

The complexities associated with healthcare reform in the U.S. has placed increasing economic and compliance pressures upon a system already burdened with significant difficulties in reimbursement to providers, and in particular hospitals, by government and commercial payers. Approximately 15% of every healthcare dollar goes to claims processing, payments, billing, revenue cycle management, and bad debt according to a McKinsey report. In a \$3.7 trillion healthcare market, this equates to in excess of \$550 billion in lost revenue. Of this total, the estimated value of Certive's near-term addressable market is approximately \$5 billion.

The adoption of ICD 10, the latest revision of the International Statistical Classification of Diseases and Related Health Problems (ICD), has added to this complexity as it became the industry standard in October 2015. The Centers for Medicare & Medicaid Services projects that in the early stages of ICD 10 implementation, healthcare claim denial rates will increase between 100% and 200%, and that payment delays, will grow by 20% to 40%, significantly growing the current market opportunity. It is believed that nearly 40% of all hospitals are considering end-to-end outsourcing for business process functions to improve efficiency, creating a significant, and largely untapped, market opportunity which Certive is uniquely poised to exploit.

## **Growth Strategy**

Certive is focused on becoming a significant and dominant competitor in the \$50B claim audit and recovery segment of revenue cycle for U.S. hospitals. Business development with hospitals is almost exclusively built upon relationships with hospital CFO's. In the absence of acquiring the relationships it would be virtually impossible for any new entrant to this segment to even secure a first meeting with a hospital CFO.

Certive's growth strategy is to acquire customers through relationships and via acquisition of select Tier 3 companies and to invest in technology and business development, enabling scale, improving value for clients, and improving margins. Charge Accuracy Audit and collections of claims are steps in a complicated process involving large quantities of claims and data. Skilled labor will always be part of the operational component of these services, but operational efficiency is a critical success factor to drive improved margins, scalability for growth, and the delivery of a differential value proposition for competitiveness. Analytical capabilities are also increasing in importance.

The Company's growth strategies are being refined as the Advisory Council and management address the strategic and tactical processes to obtain incremental cumulative growth. Customer acquisition is being complimented through the acquisition of Tier 3 companies that provide revenue cycle management services to hospitals. Evaluation of the Company's acquisition targets is critical to ensuring that the customer acquisitions resulting therefrom have long term value. The Company refers to the growing base of customers acquired through the purchase of revenue cycle vendors as part of its plan to enlarge its "footprint". The Advisory Council will assist management in targeting additional service offerings that can thereby be sold into that footprint. Furthermore, the Company's value should be enhanced as its footprint increases. The growth strategy is therefore impacted by the speed with which revenue cycle service vendor acquisitions can be accomplished, thus leading to a larger footprint. Having a clear understanding of hospital customer needs will then provide the capacity for incremental revenues and cross selling between and among these customers.

## **Regional Markets Opportunity**

During the fall of 2016, the Company initiated a program targeting smaller regional community hospitals with its Charge Accuracy Audits (CAA) service delivered by our Omega Division. Initially, we targeted a select group of geographically remote hospitals, that due to their physical location they service a select group patients, most of whom are out of network with the insurance



payers associated with these hospitals. Most of the services provided by these hospitals are related to orthopedic injuries. Typically, regional hospitals have a small number of beds that are utilized to maximize efficiencies. These dynamics together, create a significant long term market opportunity for our CAA offering. We have identified in excess of 300 regional hospitals that are strong targets for CAA. Given the highly accretive nature of the Omega CAA business, we also believe that with only a select group of less than 10 such facilities, the Company will generate sufficient revenues from these markets most of which will accrete to our consolidated positive cash flow and EBIDTA.

Utilizing the same dynamics, we also believe that these regional markets will be viable targets for our zero balance services. Large pools of contractual discounts negotiated between payers and these regional hospitals will yield to opportunities for revenue recovery in the zero-balance category.

Similarly, where a certain quantum of net patient revenue exceeds \$125 million annually, we have a unique opportunity in the self-pay/collection business.

### **Role of the Advisory Council**

The Company's Advisory Council is comprised of seven highly credentialed individuals who collectively have years of domain expertise in U.S. healthcare. The curriculum vitae of each member of the Advisory Council have been clearly articulated in this MD&A and in prior disclosures. Of particular importance however is the fact that each member of the Advisory Council has now, and will continue to have, an ongoing, active role in shaping the future of the Company.

By way of explanation, Certive has with the appointment of Dr. Art Pelberg, access to a seasoned medical director with clinical experience and a wealth of experience in operating a highly successful "plan centric" healthcare enterprise. Charlotte Jacobs will serve to assess the viability of Certive's acquisition targets in terms of technology prowess and the value of its hospital footprint to major participants in the U.S. healthcare industry. Jeffery Benton, with a lifetime career of excellence in the public markets and as a former Governor of the New York Stock Exchange, will be invaluable in shaping Certive's messaging to the investment community. Don Gilbert, the distinguished Secretary of Health and Human Services for the State of Texas under Governor George W. Bush, will assist Certive nationally in reaching deep into relationships necessary to drive significant internal growth. Tom Marreel, will work as an integral part of Certive's management to shape, direct and implement sales and marketing strategies for the consolidated enterprise. With cross selling opportunities abounding, Mr. Marreel will be a key to ensuring that Certive realizes the benefit from the acquired footprint. Fred Hatfield and Tim Hyland, both accomplished deal making, restructuring CFO's will be implicitly necessary to drive efficiencies at the corporate level and ensure that Certive's acquisition strategies are sound and meet the tests set for multipliers on enterprise value. Steve Schramm, an accomplished actuarial, who owns a very successful plan based analytics firm, will provide the ultimate elixir to ensure that disparate data becomes valuable and marketable information to healthcare executives in revenue cycle. Jack Chapman serves on the Advisory Council bringing years of experience as a hospital CFO and currently owns and operates as an independent consulting business advising

large hospital systems on operating performance improvements. Scott Ivers also serves on the Advisory Board, representing one of the Company's larger investors.

This talent pool has been assembled with the vision of enabling Certive to become a well- rounded, diversified force in U.S. healthcare and to be predictive rather than reactive to an ever-changing landscape in a highly opportunistic yet disruptive environment.

## **2017- 2018 STRATEGIC PLAN OVERVIEW**

As noted above, the Company has made several material decisions with respect to its strategy for growth and how it best utilizes capital, engages in asset ownership versus asset management and thereby reducing financial risk, deploying capital to the most accretive sources of revenue and attracting large sums of capital for expansion at the lowest possible cost or encumbrance. Based upon these conclusions, the Company has elected to re-focus its resources, both human and capital to achieve these goals. In March 2017, the process began with a newly re-constituted Board of Directors including the appointment of Hon. Ed Holder as noted above. Expanding the Board to include seasoned individuals in US Healthcare will continue. The Advisory Council has also been expanded to include a non-health care individual and investor, Robert Uxa, who has years of experience in managing growth enterprises and a deep understanding of the appropriate utilization and turns on cash management. We have engaged with Moe Vela who is leading our sales and marketing efforts utilizing his wide range of contacts in hospital administration to access and secure direct contact with both C-level administrators and those engaged in revenue cycle management within our targeted customers. We have as a result commenced a focused branding process that defines the unique Charge Accuracy Audit service offering of Omega (formerly defined as Lost Charge Recovery). We have identified a source of funding that is non-dilutive, subordinated and unsecured with a low cost of capital and a quantum that is essentially unlimited for Certive's needs if we produce the financial results anticipated from this strategy. Thus the material change in focus without any disruption to our core undertakings in revenue cycle management.

A summary of our near- term objectives are as follows;

- a) Secure closure on a selected group of regional hospitals for the Charge Accuracy Audit service focused on a consultative selling process. The Charge Accuracy Audit identifies retrospective missed charges by auditing against the patient chart as the source document. This is unique and to the Company's knowledge a major differentiator for any other participant in lost charge recovery. The currently targeted regional hospitals have significant revenue potential in excess of \$8 million annually. This is but one regional opportunity located in only one state in US. This combined with the large closure of the mid-western facility secures the Company as highly cash positive and a model for all future sales and marketing initiatives.
- b) Invest in the necessary infrastructure at our Florida operation to support the growth in Charge Accuracy Audits, and ensure that we can deliver on the sales promise of ensuring that no future charges will be lost as we continue to monitor the customers charging practices, provide ongoing edits to catch regulatory or business rule changes on billings and thus promote a close long term relationship with our customers. Certive will also be evaluating the expansion of the Omega services to other revenue cycle activities

- c) Continue to develop relationships with other revenue cycle service providers for joint ventures through sales and marketing agreements that will allow Certive to provide a full range of such services to its customers.
- d) Finance growth with the use of a Foreign Asset Income Trust (FAIT) originating in the Company's domicile, Canada. The FAIT will provide capital at low rates of interest, will be non-dilutive, unsecured and enable the Company to avail itself of additional conventional financing in the United States.
- e) Target management services agreements utilizing the talent in the Advisory Council for business opportunities with contribution margins of 35% or less and target acquisition opportunities where the contribution margins are greater than 35% and where the undertaking is unique and not easily replicated. Analytics and actuarial service providers are targets.

### **Overall Performance for the nine months ended February 28, 2017**

The following discussion of the Company's financial performance is based on the consolidated financial statements for the nine months ended February 28, 2017 and February 29, 2016.

As of February 28, 2017, the Company had a cash and cash equivalents balance of \$308,773 (May 31, 2016 - \$213,280), accounts receivable of \$1,208,422 (May 31, 2016 - 1,057,189), prepayment of \$1,550 (May 31, 2016 - 2,281) and loan receivable of \$85,976 (May 31, 2015 - \$nil), and total current assets of \$1,604,721 (May 31, 2015 - \$1,272,750). The increase in total current assets was mainly in the area of accounts receivable. The increase in accounts receivable is mainly coming from Titan which as increased revenue in the last quarter. Collections is not in question.

There was no significant change in non-current assets which were \$4,597,009 at February 28, 2017 (May 31, 2016 - \$4,606,749). The difference was due to a reduction in capital assets due to amortization.

Current liabilities at February 28, 2017 total \$3,407,631 (May 31, 2015 - \$5,739,838), the decrease is due to several factors.

Firstly, it should be noted that trade payable remained consistent with a change of less than 1%. There is no significant change in accounts payable which is less than \$10,000 higher than the balance at May 31, 2016. Secondly, convertible debt decreased from \$4,051,370 to \$1,407,708. Of this change \$2,400,000 of debt was related party owing to the principals of Titan and Omega which is now in Shareholders equity under "other equity instruments" party. An additional \$600,000 of debt was also settled. During the period the Company received a further \$500,000 in new loans. The net effect is a 41% decrease in current liabilities.

Short term loans increased by \$304,812 as a result of a new loan from one investor that is due May 2017.

Working capital, which is comprised of current assets less current liabilities, is (\$1,806,157) at February 28, 2017 as compared to (\$4,467,088) at May 31, 2016. Working capital has improved

but continue to be an area of concern to management. Management believes that there is sufficient working capital to maintain the Company's day-to-day operations.

During the nine months ended February 28, 2017, the Company reported a net loss of (\$2,332,875), ((\$0.03) basic and diluted income per share based on 71,657,760 weighted average number of common shares) compared to a net loss of (\$2,618,859), (\$0.06) basic and diluted income per share based on 47,162,694 weighted average number of common shares) for the nine months ended February 29, 2016. This was a decrease of loss of about 10.8%.

## **RESULTS OF OPERATIONS – Nine Months Ended February 28, 2017: Certive Solutions Inc.**

Results of operations are reported on a comparative basis with the nine months ended February 29, 2016.

The Company generated \$4,149,928 in gross revenue for the nine months ended February 28, 2017, compared with \$4,495,559 for the nine months ended February 29, 2016, a decrease of \$345,631, or 7.7%.

For the nine months ended February 28, 2017, the Company recorded gross revenues of \$4,149,928, of which Billing Support Services accounted for \$961,087, Claim Audit and Collections accounted for \$1,885,892 and Consulting Services accounted for \$202,790 with Chargemaster sales totaling \$1,039,782 and Dashboard sales totaling \$60,377.

For the nine months ended February 28, 2017, the Company reported direct payroll costs totaled \$2,389,104 or 57% of consolidated revenues for the period. This compares to \$2,536,580 or 56% of consolidated revenue for the comparative nine months. It should be noted that certain management labor costs were recorded as general administrative expenditures under Salaries and Wages for the nine months ended February 28, 2017. This is not consistent with the prior year as management made a decision to charge these costs to the general administration accounts. The aggregate total of such charges including benefits totals to \$316,489.

It should be noted that with the acquisition contemplated herein, the Company will achieve significant reductions in direct labor costs by applying the work flow tools and excess capacity in the target to its current operations.

For the nine months ended February 28, 2017, Omega recorded gross revenues of \$1,039,782 as compared to \$1,292,160 for the comparative nine months ended February 29, 2016 a decrease of \$252,378 or 20%. The Omega division's revenue is down 25% over the preceding comparative quarter due to the fact that for the period ended November 30, 2015, the Company recorded sales for which invoices had been rendered to the payer but for which the Company had not yet invoiced the customer directly. In the current period ended February 28, 2017, the Company did not record any such revenues.

Titan recorded \$2,846,978 in revenues for the nine months ended February 28, 2017 as compared to \$2,758,665 for the comparative nine months ended February 29, 2016 an increase of \$88,313 or 3.0%.

Titan revenues are modestly higher during this period and is primarily as a result of increased revenue in the last quarter. Titan shifted away from Billing support to Claims audit and collections. Titan replaced much of this lost sales volume in Billing Support with new and more profitable business, most of which will come on stream in the 3rd fiscal quarter.

Consulting revenues generated by KCA for the nine months ended February 28, 2017 were \$263,167 as compared to \$444,734 for the nine months ended February 29, 2016 a decrease of \$181,567 or 41% because of reduced consulting services revenue previously provided to Maricopa County. Dashboard sales increased by \$27,398 to \$60,377 or 83% over last year. The significance of dashboard sales is that as KCA matures to a licensing model from a consulting model and the platform secures national adoption by public health units, this division will generate significant accretive high margin revenue for the Company.

Consulting fees and contractor expenses are directly related to the KCA business unit and to the consulting income generated by KCA. Historically as a practical matter, KCA has hired contractors to perform the work on the contracts it has secured with counties. KCA has only one employee, that being Fred Erickson, founder of KCA. All of the work has been performed by contractors. As the model becomes more licensing oriented the reliance on third party contractors will diminish.

Consolidated gross operating margins for the nine months ended February 28, 2017 were \$1,333,085 or 32.1% of revenues, as compared to \$1,427,258 for the nine months ended February 29, 2016, or 31.7% gross margin. This is a decrease of \$94,173 or 6.6% is not material.

### Expenses

General overhead expenses for the nine months ended February 28, 2017 totaled \$3,233,576 as compared to \$4,046,117 for the nine months ended February 29, 2016, a decrease of \$812,541 or 20.0% over the comparative nine months.

The following were the most significant changes for the nine-month period:

Sales and Marketing: The Company incurred \$49,535 of sales & marketing costs during the nine months ended February 28, 2017 as compared to \$269,746 costs for the nine months ended February 29, 2016. This represent a reduction of sales and marketing expense of 81.6%. Largely due to a reliance on internal sales and marketing as oppose to external contractors

Salaries and Wages: The reported Salaries and Wages increased to \$692,204 from \$586,743. This increase in Salaries and Wages of \$105,461 is a 18% increase. During the nine month period ended February 28, 2017 the Company determined that several of it's senior managers where providing corporate services to the company more broadly based than the divisions for which they were responsible. Accordingly, 100% of their compensation has been reallocated during these quarters to a corporate overhead classification.

Interest and Bank Charges: Interest and bank charges for the nine months ended February 28, 2017 totaled \$219,672 as compared to \$319,330 for the nine months ended February 29, 2016 a decrease of \$99,658 or 31.2%. This decrease reflects the fact that the Titan, Omega and other debt were settled in the last quarter and are no longer accruing interest.

Commissions: Commission increased to \$101,029 from \$46,037 an increase of 119%. This increase was primarily due to the fact that Titan pays commission on certain business (Claims audit and Collections) which is a growing revenue source and this resulted in a slight increase in commissions. This trend will continue as the Company continues to focus fully commissioned brokers and sales agents to identify new prospectus for both the Titan and Omega divisions.

Consulting Fees: Consulting fees of \$186,250 were paid in the nine months ending February 28, 2017, compared to \$348,878 for the nine months ended February 29, 2016. This decrease of \$162,628 was because largely due to cost cutting measures.

Corporate Finance Fees: The corporate finance fees decreased by 17% from \$159,256 to \$132,150. This decrease of \$27,106 was because of reduction of fees paid to registered broker dealers assisting the company under contract. This reflects a more efficient capital markets function for the Company as the business matures.

Management Fees: Management fees of \$410,000 were paid to the Company's CEO, CFO and other C level executives for the nine months ended February 28, 2017, compared to \$463,000 for the same period in 2016, a decrease of \$53,000. The prior year contains certain incentive payments not repeated in the current year.

Director's Fees and Advisory board fees: Director's fees decreased from \$213,000 for the nine months ended February 29, 2016 to \$55,000 for the nine months ended February 28, 2017. This represents a decrease of \$158,000 or 74.2%. Director's fees were reduced as a cost cutting measure. Advisory Board fees also decreased by \$46,500 from \$159,000 in the prior year to \$112,500 in the current year. Some Directors and Advisory board members were paid an incentive to join the respective boards, which was a one-time payment in the prior periods, thus decreasing costs in the current period.

General and Administrative Costs: General administrative expenses decreased from \$358,158 to \$330,189 for the nine months ended February 28, 2017, a decrease of \$27,969 over the comparative nine months.

Professional Fees: Professional fees paid for the nine months ended February 28, 2017 were \$275,775 as compared to \$429,083 for the comparative prior nine months, a decrease of \$153,308 for the nine months. This decrease stemmed from several areas. Both Legal and Audit expenses were higher in the prior period due to the Titan and Omega transactions. Additional fees were incurred to transition the Company to a higher level of activity.

Rent: Rent and occupancy costs for the nine months ended February 28, 2017 totaled \$279,736 as compared to \$220,350 for 2016. The increase of \$59,386 is attributed to the cost of operating the Omega division for the entire nine months as opposed to only seven months in the prior year.

Travel and Promotion: Travel and promotion costs for the nine months ended February 28, 2017 were \$144,303 compared to \$112,353 for the comparative nine months ended February 29, 2016. The additional travel costs are associated with the increased level of activity in the company and continued due diligence carried out on new acquisition targets.

Basis of Calculation: Black-Scholes

During the six months ended November 30, 2016, the Company granted 2,100,000 stock options. The weighted average fair value of the options granted of \$432,384 was determined by the Black-Scholes pricing model using the following assumptions: risk-free interest rate of 0.60%; expected life 5 years; expected volatility – 165%; expected dividends – nil; and provision for forfeiture of. The options granted vested on the grant date.

No stock options (or stock based compensation) were issue in the most recent quarter so expense for the nine month period ended February 28, 2017 came from the prior quarter as noted above.

The basis for the Black-Scholes expense calculation is reported both in this MD&A and it the Company's notes to its financial statements. As noted it represents a non-cash charge to the income statement that is not a cost associated with funding daily operations. If the comprehensive loss was adjusted for the black-Scholes share option expense the adjusted loss would have been \$1,903,738.

The comprehensive loss for the nine months ended February 28, 2017 was \$2,332,875 as compared to \$2,618,859 for the nine months ended February 29, 2016. This represent a 10.9% reduction.

The fully diluted loss for the nine-month period per share outstanding as at February 28, 2017 was \$0.03 per share calculated on the basis of 71,657,760 consolidated weighted average common shares outstanding.

**RESULTS OF OPERATIONS – Three Months Ended February 28, 2017: Certive Solutions Inc.**

Results of operations are reported on a comparative basis with the three months ended February 29, 2016.

The Company generated \$1,259,820 in gross revenue for the three months ended February 28, 2017, compared with \$1,148,411 for the three months ended February 28, 2016, an increase of \$111,409 or 10%.

For the three months ended February 28, 2017, the Company recorded gross revenues of \$1,259,820, of which Billing Support Services accounted for \$291,169, Claim Audit and Collections accounted for \$589,411 and Consulting Services accounted for \$58,530 with Chargemaster sales totaling \$302,630 and Dashboard sales totaling \$18,080.

Operating Expenses did not decrease as significantly, resulting in a decreased gross margin of 26% in the current quarter compared to 29.7% gross margin in the corresponding period in prior year.

We were able to reduce Contractors and Consulting fees down 11% but Direct Payroll and benefits increased by 19.2%.

We took steps to moderate the fixed payroll and contractor burn as our sales were off and cash flow became tighter. Our margins were reduced temporarily as we were not able to reduce costs at the same rate our revenue was reduced. Margins are off due to the fact that revenues were down by 29% but we were only able to trim our payroll and contractor costs by 22% therefore a 7% hit reflected in costs that had to be absorbed.

### Expenses

Expenses were \$1,069,905 for the three months ended February 28, 2017 compared to \$1,395,607 for the period ended February 29, 2016. The following are the most significant

Salaries and wages: a decrease of \$194,758

Sales & Marketing: a decrease of \$141,551

Foreign Exchange resulted in a decrease of \$107,311

Corporate Finance Fees: decrease of \$19,976

Director's fees: a decrease of \$28,500

Details behind the decrease in each category are described above. As the Company, moves to positive free cash there will be a concurrent effort to consolidate operating overheads.

### **FINANCIAL POSITION**

During the current quarter, the Company had the following securities transactions:

The financial position as at February 28, 2017, is reported on a comparative basis with the Company's fiscal year ended May 31, 2016.

As at February 28 2017, the Company had a working capital deficiency of \$1,802,910. However, there are current liabilities that are scheduled for conversion to equity.

The adjusted working capital should be as follows



| <b>Adjusted Working Capital Calculation:</b> |                         |                         |   |  |   |
|--|-------------------------|-------------------------|---|--|---|
| <b>Total Current Assets</b>                  |                         |                         |   |  | 1,604,721                                 |
|  | <b>Convertible Debt</b> | <b>Short Term Loans</b> | <b>Accounts Payable &amp; Accrued Liabilities</b> |  | <b>Total Adjusted Current Liabilities</b> |
| <b>Current Liabilities:</b>                  | <b>1,407,708</b>        | <b>878,254</b>          | <b>1,121,669</b>                                  |  | <b>3,407,631</b>                          |
| <b>Amounts to be converted:</b>              |                         |                         |   |  |   |
| Reclassification to long term debt           | -500,000                | -300,000                |   |  | -800,000                                  |
| Convertible Unsecured:                       | -736,000                |                         |   |  | -736,000                                  |
| Related Party-Convertible                    |                         | -206,386                |   |  | -206,386                                  |
| Other Convertible loans                      |                         | -256,200                |   |  | -256,200                                  |
|  |                         |                         |   |  |   |
| <b>Total Adjusted Current Liabilities</b>    | <b>171,708</b>          | <b>115,668</b>          |   |  | <b>1,409,045</b>                          |
|  |                         |                         |   |  |   |
| <b>Net Working Capital</b>                   |                         |                         |   |  | <b>195,676</b>                            |
|  |                         |                         |   |  |   |
| Long -term debt (Don Ross)                   | -500,000                | -300,000                |   |  | -800,000                                  |
|  |                         |                         |   |  |   |

As at February 28, 2017 there was \$800,000 reflected in current liabilities, that based on subsequent discussion with the lender have agreed to be converted to a two year obligation to the company. According this will be reflected in subsequent financial statements as long term debt. Thus the \$800,000 has been reflected as adjustment to working capital in the period.

The reported working capital as per the financial statements as at February 28, 2017 was a working capital deficiency of \$1,802,910. Current assets consisted of cash in the amount of \$308,773 and accounts receivable and other current assets of \$1,295,948.

Current liabilities totaled \$3,407,631. Accounts payable represents \$1,121,669. Of the current liabilities, \$1,407,708 is represented by various categories of convertible securities.

The short-term Loans referred to above, consist of \$206,386 due to Titan as part of the original asset purchase transaction. The note is unsecured and will be settled in part, by way of offsetting contributions by the Company to working capital since the date of the Asset Purchase Agreement and through the issuance of common shares of the Company. This liability will be eliminated upon closure of the repurchase agreement referred to earlier.

In addition, \$256,200 represents an amount due to one of the partners in KCA which amount was part of the original asset purchase of KCA. Both this amount and the Titan liability are being settled as part of an amending transaction related to the Asset Purchase Agreements. Settlements for both will be in part completed by means other than the payment of cash. The KCA debt was forgiven on March 14, 2017. See subsequent events.

## SELECTED ANNUAL INFORMATION

The following financial data, which has been prepared in accordance with International Financial Reporting Standards (IFRS), is derived from the Company's financial statements. These sums are being reported in U.S. dollars and did not change as a result of the adoption of policies concerning Financial Instruments.

|   | Year ended    |               |               |
|---|---------------|---------------|---------------|
|   | May 31, 2016  | May 31, 2015  | May 31, 2014  |
| Total Revenue                             | \$ 5,634,770  | \$3,862,837   | \$--          |
| Interest income                           | \$--          | \$--          | \$--          |
| Expenses                                  | \$ 11,370,457 | \$6,177,515   | \$2,130,905   |
| Net loss                                  | (\$5,735,687) | (\$2,314,678) | (\$2,130,905) |
| Total assets                              | \$5,879,498   | \$4,496,007   | \$414,719     |
| Total long-term liabilities               | \$            | \$--          | \$--          |
| Net loss per share<br>(basic and diluted) | (\$.11)       | (\$.06)       | (\$.08)       |

For the year ended May 31, 2013, the Company wrote off \$4,222,190 in goodwill that was deemed impaired at that date. The Company incurred a further \$981,165 in total expensed for the period. For the year ended May 31, 2014, the Company incurred operating and other costs totaling \$2,130,905. The difference between fiscal 2013 and 2014 is largely attributable to the write off of goodwill. Prior to June 1, 2014, the Company did not have operations and accordingly commenced segmenting its Consolidated Statements of Comprehensive Loss for the quartered ended November 30, 2014.

### SELECTED QUARTERLY INFORMATION

The following table summarized the results of operations for the four most recent quarters.

|                 | Three months ended   |                      |                    |                 |
|-----------------|----------------------|----------------------|--------------------|-----------------|
|                 | February 28,<br>2017 | November 30,<br>2016 | August 31,<br>2016 | May 31,<br>2016 |
| Total Revenue   | \$1,259,820          | \$1,373,808          | \$1,516,300        | \$1,139,211     |
| Interest income | \$ --                | \$ --                | \$ --              | \$ --           |
| Expenses        | \$2,001,646          | \$2,534,823          | \$1,946,334        | \$3,871,038     |
| Net loss        | (\$741,826)          | (\$1,161,015)        | (\$430,034)        | (\$2,731,827)   |

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Net loss per share and diluted loss<br>per share | (\$.01) | (\$.02) | (\$.01) | (\$.04) |
|--|---------|---------|---------|---------|

|  | Three months ended   |                      |                    |                 |
|--|----------------------|----------------------|--------------------|-----------------|
|  | February 29,<br>2016 | November 30,<br>2015 | August 31,<br>2015 | May 31,<br>2015 |
| Total Revenue                                    | \$1,148,411          | \$ 1,934,087         | \$ 1,413,061       | \$ 1,142,621    |
| Interest income                                  | \$ --                | \$ --                | \$ --              | \$ --           |
| Expenses   | \$2,203,167          | \$3,412,479          | \$1,883,773        | \$2,075,602     |
| Net loss   | (\$1,054,756)        | (\$1,478,392)        | (\$470,712)        | (\$932,981)     |
| Net loss per share and diluted loss<br>per share | (\$.01)              | (\$.02)              | (\$.02)            | (\$.02)         |

### Summary of Quarterly Results

For the quarter ended February 28, 2017, the Company recorded revenues of \$1,259,820. The Company recorded operating expenses of \$931,741 for the quarter ended February 28, 2017, representing a 26.0% operating margin. Overhead expenses totaled \$1,069,905 for the three months. Comprehensive loss for the three months ended February 28, 2017 was \$741,826.

For the quarter ended August 31, 2016, the Company recorded gross revenues of \$1,516,300. This is an increase in quarterly earnings from the previous quarter of \$377,089 (previous quarter revenue of \$1,139,211). In the preceding quarter, the Company recorded \$500,000 in revenues related to billings outstanding at the quarter end for which Certive had completed the work and for which there were contracts for payment in place. In the current quarter the incremental billings were immaterial and not recorded thus contributing significantly to the reduced revenue. In addition, December is traditionally a very slow month for billings in the Titan division. Traditionally revenues are lower by 20% and that was in fact experienced in the current quarter ended February 29, 2016. March revenues totaled \$497,000 up by approximately \$115,000 over the preceding month of February. Anticipated gross revenues for the 4th quarter should be in the historical quarterly range of \$1,500,000 for the final three months of fiscal 2016.

General operating expenses totaled \$1,139,275 for the quarter or \$379,758 per month. A significant contributor to the operating expenses was the salaries paid to key divisional operating managers totaling \$441,569. As the Company begins to consolidate its overhead costs, all

management at the operational level will be reported in this category as it more appropriately represents Certive management of the consolidated enterprise.

Sales and marketing costs increased to \$136,386 from \$65,546, this represents a decrease from the preceding quarter by \$70,840. Management initiated some cost reductions in respect of consulting fees, management fees and professional fees during the quarter. This signifies the variability in overheads which is essential to effectively manage revenue swings that are very common in this industry. Certive will continue to manage its overhead costs on a variable basis so as to remain as resilient as possible within fluctuating periods of revenue.

Comparatively, on revenues of \$1,934,087 in the preceding quarter, Certive recorded a comprehensive loss of \$1,478,392 whereas in the current quarter, the Company recorded revenues of \$1,148,411 and a comprehensive loss of only \$1,054,755, a clear demonstration of cost containment.

For the quarter ended May 31, 2016, the Company recorded gross revenues of \$1,139,211. This is a reduction in quarterly earnings of \$9,200 (previous quarter revenue of \$1,148,411).

Operating margins for the quarter were 24% of gross revenues compared to 29% for the year ended May 31, 2016. Total gross margin for the quarter was \$278,411 on revenue of \$1,139,211. Direct payroll costs represented 62% of revenues for the quarter.

General operating expenses totaled \$1,447,141 for the quarter or \$482,380 per month. A significant contributor to the operating expenses was the salaries paid to key divisional operating managers totaling \$356,343. As the Company begins to consolidate its overhead costs, all management at the operational level will be reported in this category as it more appropriately represents Certive management of the consolidated enterprise.

Sales and marketing costs decreased to \$133,290 from \$136,386, this represents a decrease from the preceding quarter by \$3,096.

Comparatively, on revenues of \$1,148,411 in the preceding quarter, Certive recorded a comprehensive loss of \$1,054,756 whereas in the current quarter, the Company recorded revenues of \$1,139,211 and a comprehensive loss of \$2,731,827.

For the quarter ended August 31, 2016, the Company recorded gross revenues of \$1,516,300. This is an increase in quarterly earnings of \$377,089 (previous quarter revenue of \$1,139,211).

Operating margins for the quarter were 38% of gross revenues compared to 24% for the quarter ended May 31, 2016. Total gross margin for the quarter was \$573,935 on revenue of \$1,516,300. Direct payroll costs represented 49.7% of revenues for the quarter.

General operating expenses totaled \$1,003,969 for the quarter or \$334,656 per month. A significant contributor to the operating expenses was the salaries paid to key divisional operating managers totaling \$348,166.

## **LIQUIDITY**

- a) As at the date of this MD&A, the Company has sufficient working capital to cover its operating overhead costs for a period of 3 months. The capital necessary to maintain overhead coverage has been secured by way of a convertible bridge financing provided by one of the Company's major investors. The near term objective for the Company is that on a consolidated basis, cash flow from operations will be sufficient to cover all corporate overhead within the following five months.
- b) Other than as set forth herein, there are no expected fluctuations in the Company's liquidity, taking into account demands, commitments, events or uncertainties.
- c) The Company does not currently have any liquidity risks associated with financial instruments.
- d) The Company does not currently expect to have a working capital deficiency after it has converted the currently outstanding convertible notes as noted above.
- e) There are no balance sheet conditions or income or cash flow items that may affect the Company's liquidity.
- f) The Company has two subsidiaries at the date of this MD&A.
- g) There are currently no defaults or arrears by the Company on dividend payments, lease payments, interest or principal payment on debt, debt covenants; redemption or retraction or sinking fund payments.

## **CAPITAL RESOURCES**

There are no known trends or expected fluctuations in the Company's capital resources, including expected changes in the mix and relative cost of such resources.

## **OFF BALANCE SHEET ARRANGEMENTS**

As at May 1, 2017 the Company had no off-balance sheet arrangements.

## **PROPOSED TRANSACTIONS**

The Company does not have any other proposed transactions to discuss at this time, other than as is disclosed in Subsequent Events.

## **TRANSACTIONS WITH RELATED PARTIES**

- a) As of February 28, 2017, the Company had advanced \$564,000 to Canadian Data Preserve, Inc., a company with common directors. The common directors are Brian Cameron, Van Potter, and Jack Saltich. The advances are secured with a promissory note bearing interest at 8% per annum. The advance has not been repaid at the date of this MD&A. During the current financial year, the Company has recorded allowance for doubtful debts for the amount of the receivable recorded at that date. Subsequent to the year end, Canadian Data Preserve Inc. has advised the Company that it intends to complete an acquisition and fund a new business venture. The amount allowed for at year end may therefore be recoverable and the Company has continued to fund Canadian Data Preserve Inc.

- b) After the completion of the Plan of Arrangement Agreement, the Company paid and accrued consulting fees of \$15,000 plus taxes to Tulox for services provided in spinning off Tulox's interest in the Licensing Agreement to a separate entity. As of May 31, 2013, the Company still owed Tulox \$1,800 with respect to this service.
- c) As of November 30, 2014, the Company owed \$20 to Tulox with respect to funds advanced in order to cover monthly bank charges. The loan is non-interest bearing and has no fixed term of repayment.
- d) During the nine months ending February 28, 2017, the Company paid management, consulting, and director's fees and salaries to key management persons totaling \$763,750.

Directors fee's

|               |                  |
|---------------|------------------|
| Mike Bartlett | <u>\$ 55,000</u> |
| Total         | <u>\$ 55,000</u> |

Advisory Board Fees

|                  |                  |
|------------------|------------------|
| Charlotte Jacobs | \$ 55,000        |
| Jack Chapman     | \$ 22,500        |
| Tom Marreel      | <u>\$ 35,000</u> |
| Total            | <u>\$112,500</u> |

Management Fees

|                |                  |
|----------------|------------------|
| Brian Cameron  | \$205,000        |
| Van Potter     | \$205,000        |
| Ann Fierro     | \$ 86,535        |
| Fred Erickson  | \$ 58,900        |
| Thomas Hoehner | \$175,250        |
| Todd Hisey     | <u>\$168,500</u> |
| Total          | <u>\$899,185</u> |

- e) As of February 28, 2017, the Company loans receivable of \$564,000 from related parties as follows:
  - i. Due from Canadian Data Preserve Inc. \$564,000
- f) As of February 28, 2017, the Company had Loans and Convertible Loans due to related parties as follows:
  - i. Loan due to Van Potter \$15,000
  - ii. Loans payable of \$305,847 to the following related parties, Titan, Omega and KCA

## OUTSTANDING SHARE DATA

Authorized: unlimited common shares without par value  
unlimited preferred shares without par value

Issued and Outstanding:

|   | Number of Shares  | Amount               |
|---|-------------------|----------------------|
| Common share issued on incorporation                  | 1                 | \$ 1                 |
| Cancellation of incorporator share                    | (1)               | (1)                  |
| Issuance of shares in pursuant of Plan of Arrangement | 6,038,667         | 15,000               |
| Issued in respect of the acquisition of AIM           | 8,958,000         | 179,160              |
| Issued for cash                                       | 1,940,000         | 97,000               |
| Exercise of options                                   | 1,000,000         | 50,000               |
| <b>Balance as at February 28 2012</b>                 | <b>17,936,667</b> | <b>\$ 341,160</b>    |
| Consolidation 7:1 as at April 27, 2012                | 2,562,381         | \$ 341,160           |
| Issued in respect of AIM acquisition                  | 9,735,143         | \$ 3,407,300         |
| Issued in respect of VVT acquisition                  | 13,275,000        | \$ 4,646,425         |
| Issued in respect of private placement                | 2,550,830         | \$ 1,075,396         |
| Subscription Receivable                               |                   | \$ (20,000)          |
| <b>Balance as at May 31, 2012</b>                     | <b>28,133,354</b> | <b>\$ 9,450,281</b>  |
| Issued as Bonus on Debentures                         | 184,000           | \$ 108,820           |
| <b>Balance as at May 31, 2013</b>                     | <b>28,317,354</b> | <b>\$ 9,559,101</b>  |
| Common shares issued for:                             |                   |                      |
| Cash - \$015  | 2,666,667         | \$ 400,000           |
| 2:1 Share Consolidation                               | (15,490,700)      |                      |
| Private Placement - \$.10                             | 24,114,810        | \$ 2,411,481         |
| Treasury Order - \$.1                                 | 1,430,960         | \$ 144,689           |
| <b>Balance at August 31, 2014</b>                     | <b>41,039,091</b> | <b>\$ 12,515,271</b> |
| Private placement - \$.14                             | 1,277,864         | \$ 180,365           |
| Private placement – Adjustment                        | (1,333,333)       | (400,000)            |
| <b>Balance at May 31, 2015</b>                        | <b>40,983,622</b> | <b>\$ 12,295,636</b> |
| Private placement - \$.30                             | 13,457,310        | \$ 4,037,193         |
| Private placement - \$.11                             | 6,976,922         | \$ 882,500           |
| Private placement - \$.15                             | 78,750            | \$ 8,567             |
| Private placement - \$.15                             | 1,169,231         | \$ 145,756           |
| Private placement – Adjustment                        | (384,615)         | \$ (50,000)          |
| Private placement - \$.15                             | 1,887,590         | \$ 199,769           |
| Private placement - \$.15                             | 2,000,000         | \$ 300,000           |
| Private placement - \$.15                             | 916,667           | \$ 275,000           |
| <b>Balance at May 31, 2016</b>                        | <b>67,085,477</b> | <b>\$ 18,094,420</b> |

|                                     |                   |           |                   |
|-------------------------------------|-------------------|-----------|-------------------|
| Private placement                   | 2,101,523         | \$        | 630,456           |
| Stock Option exercise               | 1,263,570         | \$        | 252,714           |
| Private placement                   | 509,443           | \$        | 152,833           |
| Private placement                   | 5,270,030         | \$        | 1,001,306         |
| <b>Balance at November 30, 2016</b> | <b>76,230,043</b> | <b>\$</b> | <b>20,131,729</b> |
| Stock Option exercise – Jan 6, 2017 | 2,031,354         | \$        | 406,271           |
| Balance at February 28, 2017        | <b>78,261,397</b> | <b>\$</b> | <b>20,538,000</b> |

#### Stock Options:

The following stock options are currently outstanding:

|                           |                                 |
|---------------------------|---------------------------------|
| Previously issued options | 13,133,847                      |
| Exercised options         | <u>(2,031,354)</u>              |
| Total outstanding options | <u>11,102,493<sup>(1)</sup></u> |

<sup>(1)</sup> As at February 28, 2017 and the date of this MD&A.

#### Warrants:

The following warrants are outstanding:

Warrants outstanding at May 31, 2016      5,061,239

Issued in the period:

|                                    |                |                             |
|------------------------------------|----------------|-----------------------------|
| Warrants issued September 12, 2016 | 2,101,523      | Expiring September 12, 2018 |
| Warrants issued November 30, 2016  | 2,635,017      | Expiring November 30, 2018  |
| Warrants issued November 30, 2016  | <u>254,723</u> | Expiring November 30, 2018  |

Total      10,052,502

Total warrants outstanding at February 28, 2017 was 10,052,502 warrants

### CONTINGENCIES

Except for the commitments mentioned in Liquidity subsection (b), there are no other contingencies outstanding as of date of this discussion.

### SUBSEQUENT EVENTS



1. On March 14, 2017 1,350,000 shares were issued to complete the KCA acquisition. As part of this transaction a liability of US \$256,000 was forgiven.
2. On March 15, 2017 the Company announced that it issued a total of 35,000,000 voting, non-redeemable, non-participating Class A Preferred Shares to directors, officers, and consultants of the Company.
3. On April 30, 2017, the Company signed a Loan Agreement with Leede Jones Gable Inc. in respect of cash advances made to the Company in November 2016 and January 2017 totaling \$800,000. The principal sum of the advances becomes due and payable on January 23, 2019 (the “Maturity Date”).

## **CONTROLS AND PROCEDURES**

The Chief Financial Officer is responsible for establishing and maintaining effective disclosure controls and procedures for the Company as defined in National Instrument 52-109 *Certification of Disclosure in Annual and Interim Filings*. Management has concluded that as of October 28, 2011, discussion of disclosure controls and procedures is preemptive; however, once operations begin, such controls will be effective enough to provide reasonable assurance that material information relating to the Company would be known, particularly during the period in which reports are being prepared.

### **Disclosure controls and procedures**

The Chief Financial Officer is responsible for establishing and maintaining effective disclosure controls and procedures for the Company as defined in National Instrument 52-109 *Certification of Disclosure in Annual and Interim Filings*. Management has concluded that as of October 28, 2011, discussion of disclosure controls and procedures is preemptive; however, once operations begin, such controls will be effective enough to provide reasonable assurance that material information relating to the Company would be known, particularly during the period in which reports are being prepared.

### **Internal control over financial reporting**

The Chief Financial Officer is responsible for establishing and maintaining effective internal control over financial reporting as defined in National Instrument 52-109. Because of its inherent limitations, internal control over financial reporting may have material weaknesses and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has concluded that internal control over financial reporting will be effective. The design and operation of internal control over financial reporting will provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles.

Internal control over financial reporting will include those policies and procedures that establish the following: maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of assets; reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable generally accepted accounting principles; receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors; and reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets.

Management will design internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

### **Segregation of duties**

Currently duties have not been segregated due to the small number of individuals involved in this start-up. This lack of segregation of duties has not resulted in any material misstatement to the financial statements.

As the Company incurs future growth, management plans to expand the number of individuals involved in the accounting and finance functions. At the present time, the Chief Executive Officer and Chief Financial Officer oversee all material transactions and related accounting records. In addition, the Audit Committee of the Company review on a quarterly basis the interim financial statements and key risks and will query management about significant transactions.

### **Complex and non-routine transactions**

The Company may be required to record complex and non-routine transactions. These sometimes will be extremely technical in nature and require an in-depth understanding of Canadian GAAP. Finance staff will consult with their third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. In addition, an annual audit will be completed and presented to the Audit Committee for its review and approval.

These consolidated financial statements, including comparatives have been prepared in accordance with International Accounting Standards (“IAS”) 1, “Presentation of Consolidated financial statements” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

These consolidated financial statements were authorized by the audit committee and board of

directors of the Company on January 30, 2017.

### **Comparative periods**

Prior period comparative figures have been amended to conform to the current period's presentation. Previously, the Company's due from and due to related parties were reported separately on the statement financial position. They are now reported as a net figure under due from related party.

### **Use of estimates and judgments**

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting year, 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, but are not limited to, the following:

i) Depreciation

The Company's management exercises its judgment in estimating the useful lives of the depreciable assets. The estimated useful lives reflect the management's estimate of the periods the Company intends to derive future economic benefits from the use of these assets. The Company depreciates its capital assets in accordance with the accounting policies stated in Note 3.

ii) Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

iii) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

### **Determination of functional currency**

The functional currency is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency for the Company is the U.S. dollar. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

## **SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries. Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

| Name of Subsidiary                    | Place of Incorporation | Proportion of Ownership Interest | Principal Activity     |
|---------------------------------------|------------------------|----------------------------------|------------------------|
| Advantive Information Management Inc. | Vancouver, BC          | 100%                             | Information Technology |
| Certive Technologies Arizona Inc.     | Scottsdale, Arizona    | 100%                             | Information Technology |

### **Foreign exchange**

Transactions in currencies other than the U.S. dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are recognized through profit or loss.

### **Cash**

Cash includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and subject to an insignificant risk of change value.

## **License**

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. At the end of each reporting period, the License is reviewed to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. See Note 7 for details.

## **Financial instruments**

### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized through profit or loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through profit or loss.

The Company has not classified any financial assets as held-to-maturity or available for sale.

All financial assets except for those at fair value through profit or loss are subject to review for

impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash as fair value through profit or loss. The Company's receivables and due from related parties are classified as loans and receivables.

### Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss:* This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

*Other financial liabilities:* This category includes promissory notes, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost. The Company's accounts payables and other liabilities, due to related parties, short term loans and convertible debt are classified as other financial liabilities.

### **Impairment**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## **Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

## **Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## **Related party transactions**

Parties are considered to be 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 considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

## **Future accounting pronouncements**

A number of new standards, amendments to standards and interpretations are not yet effective as at February 28, 2015, and have not been applied in preparing this consolidated financial statement. The Company has not early adopted any of these standards and is currently evaluating the impact,

if any, that these standards might have on its financial statements.

Accounting standards issued and effective for years beginning January 1, 2013.

### Consolidated financial statements

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

- i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements.
- ii) defines the principle of control, and establishes control as the basis for consolidation
- iii) sets out how to apply the principle of control to identify whether an investor controls and investee and therefore must consolidate the investee
- iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation-Special Purpose Entities*.

### Joint Ventures

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

### Disclosure of involvement with other entities

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effect of those interests on its financial position, financial performance and cash flows.

### Separate financial statements

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

### Investment in associates and joint ventures

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investment in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors



with joint control of, or significant influence over, an investee (associate or joint venture).

### **Interest-bearing loans and other borrowings**

Interest-bearing loans and other borrowings are recognized initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of borrowings on an effective interest basis.

### **Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

### **Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

### **Revenue recognition**

Contract revenue is recognized when goods are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

## **RISK FACTORS**

### **Strategic and operational risks**

Strategic and operational risks are risks that arise if the Company fails to develop sufficiently develop its strategic plans. These strategic opportunities or threats arise from a range of factors which might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

### **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. The Company is subject to normal industry credit risks. The Company's other receivable balance may consist of amounts outstanding on Harmonized Sales Tax Credits from Canada Revenue Agency. Therefore, the Company believes that there is minimal exposure to credit risk.

### **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at November 30, 2016, the Company had a cash and cash equivalent balance of \$676,650 and current liabilities of \$3,273,897 of which \$1,840,429 will be settled for stock.

### **Interest risk**

Interest risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market risk. The Company's sensitivity to interest rates is currently immaterial.

### **Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company holds no financial instruments that are denominated in a currency other than U.S. dollar. Cash and accrued liabilities are denominated in Canadian currency. Therefore, the Company's exposure to currency risk is minimal.

## **RISKS AND UNCERTAINTIES**

### **Risk Factors**

In evaluating an investment in the Company's shares, in addition to the other information contained or incorporated by reference herein, investors should consider the following risk factors. These risk factors are not a definitive list of all risk factors associated with the Company and its business.

#### *General and Industry Risks*

The Company's business objectives in the next 12 months are to establish, by the end of 2014, (i) an expanded profitable operating business that can be sustained on an ongoing basis, (ii) a strong market position that will permit the company to rapidly and profitably expand the market for its products, and (iii) significant competitive advantages that will permit the company to sustain its market shares and profit margins.

#### *Securities and Dilution*

The purpose of the concurrent financing is to raise funds to carry out the Company's business objectives with the ultimate objective of establishing a human resources company providing unique Web-based solutions to the small and medium-sized business enterprises. The only source of future funds presently available to the Company is through the sale of equity capital or the assumption of debt. There is no assurance that such sources of financing will be available on acceptable terms, if at all. If the Company seeks additional equity financing, the issuance of

additional shares will dilute the interests of their current shareholders. Failure to obtain such additional financings could result in delay or indefinite postponement of the Company's strategic goals.

### Competition

The computer software backup/recovery industry is intensely competitive in all of its phases, and the Company will compete with many companies possessing greater financial resources and technical facilities than the Company.

### Conflicts of Interest

Certain of the Company's proposed directors and senior officers are directors or hold positions in other public companies. If any disputes arise between these organizations and the Company, or if certain of these organizations undertake transactions with the Company's competitors, there exists the possibility for such persons to be in a position of conflict. Any decision or recommendation made by these persons involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other organizations. In addition, as applicable, such directors and officers will abstain from voting on any matter in which they have a conflict of interest.

### No History of Earnings or Dividends

As a newly formed company, the Company has no history of earnings, and there is no assurance that the Company will generate earnings, operate profitably or provide a return on investment in the future. The Company has no plans to pay dividends for the foreseeable future.

### Potential Profitability Depends Upon Factors Beyond the Control of the Company

The potential profitability of the Company is dependent upon many factors beyond the Company's control. Profitability also depends on the costs of operations, including costs of labor, equipment, electricity, regulatory compliance or other production inputs. Such costs will fluctuate in ways the Company cannot predict and are beyond the Company's control, and such fluctuations will impact on profitability and may eliminate profitability altogether. Additionally, events that cause worldwide economic uncertainty may make raising of funds for development difficult. These changes and events may materially affect the financial performance of the Company.

### Dependency on a Small Number of Management Personnel

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the Company and its business operations.

### Failure to perform contracts

Contracts for the Company's services may include penalties and/or incentives related to performance, which could materially affect operating results. Management provides for any anticipated penalties against contract value.

### Project performance

Any inability of the Company to execute customer projects in accordance with requirements, including adherence to timetables, could have a material adverse effect on the Company's business, operations and prospects.

### Intangible asset impairment

The Company has recognized the value of its contracts and customer list as an intangible asset. The Company assesses these assets periodically to evaluate if value recognized as an asset has become impaired. If the Company were to determine that the applicable expected future cash flows do not support the intangible asset book values, impairment would need to be recognized that could have an adverse impact on the financial results of the Company.

### Future capital requirements

The Company's future capital requirements will depend on many factors, including inorganic growth initiatives, securing new contracts, the rate of expansion and the status of competitive products. Depending on these factors, the Company may require additional financing which may or may not be available on acceptable terms. If additional funds are raised by issuing equity securities, dilution to the existing shareholders may result. If adequate funds are not available, the Company may not be able to achieve its growth objectives and operational targets, which could have a material adverse effect on the Company's business.

## **Officers and Directors**

|                  |  |
|------------------|--|
| Van Potter       | CEO & Director                               |
| Brian Cameron    | CFO & Director                               |
| Michael Bartlett | Executive Chairman of the Board and Director |
| Jeffrey Wareham  | Director                                     |
| Ed Holder        | Director                                     |

## **Contact Address**

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