ZOOMMED

Empowering Doctors

The ZRx Prescriber: The magic of a fast access and efficient compendium

INTERIM CONSOLIDATED FINANCIAL REPORT
AS AT FEBRUARY 29, 2012 AND FEBRUARY 28, 2011

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INTERIM CONSOLIDATED FINANCIAL REPORT (unaudited)

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To the shareholders of
ZOOMMED INC.

MANAGEMENT COMMENTS

The interim consolidated financial report of ZoomMed Inc. for the periods ended February 29, 2012 and February 28, 2011 and all information contained in this interim consolidated financial report is the responsibility of the management and has been approved by the Board of Directors.

The consolidated interim financial report was prepared by the management in accordance with International Financial Reporting Standards ("IFRS") and is consistent with the Company's business.

The Company complies with its TSX Venture Exchange listing agreement. The Company maintains rigorous systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the assets are correctly accounted for and protected.

Every year the Board of Directors appoints an Audit Committee composed of a majority of directors who are neither Company officers nor employees. The Audit Committee meets periodically with Management and the external auditors to review their tasks and discuss the audit, accounting policies and related financial matters. The results of their audit are discussed as well. The Audit Committee also reviews the financial statements and the independent auditors' report and recommends their approval by the Board of Directors.

The interim consolidated financial report for the nine-month periods ended February 29, 2012 and February 28, 2011, has not been reviewed or audited by independent auditors.

April 16, 2012

Yves Marmet,
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS
AS AT FEBRUARY 29, 2012, MAY 31, 2011 AND JUNE 1ST 2010
(Unaudited)

	February 29, 2012 (unaudited)	May 31, 2011 (unaudited)	June 1, 2010 (unaudited)
	$	$	$
ASSETS			
Current assets			
Cash	927,884	1,698,024	2,632,065
Accounts receivables and other receivables (Note 7)	506,551	210,904	411,648
Prepaid expenses	20,580	32,395	30,771
	1,455,015	1,941,323	3,074,484
Non-current assets			
Fixed assets (Note 8)	285,892	441,036	567,576
Intangible assets (Note 9)	3,156,956	2,944,885	1,792,830
Total assets	4,897,863	5,327,244	5,434,890
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (Note 10)	609,868	908,204	641,055
Deferred revenue	1,989,954	1,043,474	958,833
	2,599,822	1,951,678	1,599,888
Non-current liabilities			
Lease inducement	1,451	3,628	7,759
Convertible debenture (Note 11)	1,500,000	-	-
Total liabilities	4,101,273	1,955,306	1,607,647
SHAREHOLDERS' EQUITY			
Share capital (Note 14)	25,438,120	25,438,120	23,001,758
Warrants (Note 16)	768,676	768,676	1,794,661
Contributed surplus	5,425,141	5,350,723	3,065,176
Deficit	(30,835,347)	(28,185,581)	(24,034,352)
Total equity	796,590	3,371,938	3,827,243
Total liabilities and equity	4,897,863	5,327,244	5,434,890

ON BEHALF OF THE BOARD OF DIRECTORS

Director

Director

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 29, 2012 AND FEBRUARY 28, 2011
(Unaudited)

(unaudited)	Share capital	Warrants	Contributed surplus	Deficit	Total
	$	$	$	$	$
Balance as at June 1, 2011	25,438,120	768,676	5,350,723	(28,185,581)	3,371,938
Net loss	-	-	-	(2,649,766)	(2,649,766)
Share issue expenses	-	-	-	-	-
Fair value of stock options granted	-	-	74,418	-	74,418
Fair value of units granted to agents	-	-	-	-	-
Awarded warrants	-	-	-	-	-
Balance as at February 29, 2012	25,438,120	768,676	5,425,141	(30,835,347)	796,590

(unaudited)	Share capital	Warrants	Contributed surplus	Deficit	Total
Balance as at June 1, 2010	23,001,758	1,794,661	3,065,176	(24,034,352)	3,827,243
Net loss	-	-	-	(3,286,404)	(3,286,404)
Share issue expenses	-	-	-	(345,204)	(345,204)
Fair value of stock options granted	-	-	370,787	-	370,787
Fair value of units granted to agents	-	-	97,393	-	97,393
Share issuance	2,062,245	-	-	-	2,062,245
Awarded warrants	-	624,082	-	-	624,082
Expired warrants	-	(1,794,661)	1,794,661	-	-
Balance as at February 28, 2011	25,064,003	624,082	5,328,017	(27,665,960)	3,350,142

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 29, 2012 AND FEBRUARY 28, 2011
(Unaudited)

	February 29, 2012 (3 months) (unaudited)	February 28, 2011 (3 months) (unaudited)	February 29, 2012 (9 months) (unaudited)	February 28, 2011 (9 months) (unaudited)
	$	$	$	$
REVENUE (Note 12)	581,257	588,670	1,848,127	1,630,490
OPERATING EXPENSES (Note 12)				
Selling expenses	325,181	348,153	984,291	935,273
Administrative expenses	444,222	847,549	1,232,379	1,799,567
General operating expenses	282,873	293,300	867,625	876,430
Development Costs	187,870	257,106	643,921	680,029
Financial expenses	58,709	3,375	277,750	8,892
Amortization	164,492	229,012	491,927	616,703
	1,463,347	1,978,495	4,497,893	4,916,894
LOSS BEFORE INCOME TAXES	(882,090)	(1,389,825)	(2,649,766)	(3,286,404)
INCOME TAXES	-	-	-	-
NET LOSS AND COMPREHENSIVE LOSS	(882,090)	(1,389,825)	(2,649,766)	(3,286,404)
BASIC AND DILUTED EARNINGS PER SHARE	(0.007)	(0.012)	(0.020)	(0.029)
WEIGHTED AVERAGE NUMBER OF OUTSTANDING COMMON SHARE	130,474,687	114,437,448	130,474,687	112,027,168

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 29, 2012 AND FEBRUARY 28, 2011
(Unaudited)

	February 29, 2012 (3 months) (unaudited)	February 28, 2011 (3 months) (unaudited)	February 29, 2012 (9 months) (unaudited)	February 28, 2011 (9 months) (unaudited)
	$	$	$	$
OPERATING ACTIVITIES				
Net loss	(882,090)	(1,389,825)	(2,649,766)	(3,286,404)
Amortization	164,492	229,011	491,927	616,703
Stock-based compensation	-	370,787	74,418	370,787
Loss (gain) on disposal of fixed assets	402	(2,368)	(28,424)	5,255
Lease inducements	(726)	(1,034)	(2,177)	(3,406)
	(717,922)	(793,429)	(2,114,022)	(2,297,065)
Net change in non-cash operating working capital items	1,509,309	453,080	364,312	339,542
Cash flows used in operating activities	791,387	(340,349)	(1,749,710)	(1,957,523)
FINANCING ACTIVITIES				
Shares and warrants issued	-	1,992,600	-	1,992,600
Share issue expenses	-	(198,190)	-	(201,583)
Convertible debenture	-	-	1,500,000	-
Cash flows from financing activities	-	1,794,410	1,500,000	1,791,017
INVESTING ACTIVITIES				
Business acquisition (Note 6)	-	(785,595)	-	(785,595)
Acquisition of fixed assets	(4,084)	(75,832)	(47,891)	(225,503)
Proceeds from disposal of fixed assets	(526)	3,433	33,498	57,075
Acquisition of intangible assets	(187,503)	(57,825)	(506,037)	(199,840)
Cash flows used in investing activities	(192,113)	(915,819)	(520,430)	(1,153,863)
NET CHANGE IN CASH	599,274	538,242	(770,140)	(1,320,369)
CASH, BEGINNING OF YEAR	328,610	773,454	1,698,024	2,632,065
CASH, END OF YEAR	927,884	1,311,696	927,884	1,311,696

1. GENERAL INFORMATION

ZoomMed Inc. ("ZoomMed") was incorporated under the Canada Business Corporations Act on February 24, 2005.

ZoomMed Inc. and its subsidiaries (the "Company") are committed to the development and the marketing of an extended drug information system network; "the e-Pic network".

The e-Pic network aggregates communications and allows patients, physicians, pharmacists and pharmaceutical corporations to interact, thus enhancing health care stakeholder's efficiency.

As part of this network, the Company developed and markets the ZRx Prescriber, a technological innovative Web application that enables physicians to use a wireless device, such as the IPod Touch, IPhone, IPad, Google Android, other PDA's or computers, to write and rapidly deliver scripts to pharmacies.

The ZRx Prescriber is quick, efficient and intuitive. Since it is a stand-alone product, it can easily be integrated to any Electronic Medical Record application (EMR). The ZRx Prescriber is also, for the physician, a mobile source of information coming from pharmaceutical corporations, as well as private and public institutions.

Furthermore, the Company develops and markets a new application that enhances all aspects of the prescription filling process and the complete pharmacists patient file management "PraxisLab". PraxisLab uses up-to-date Web technology which is perfectly compatible with the technology used by the Company.

The ensuing communication and management improvement enhances the health care system and allows patients to have access to faster and more secure services.

ZoomMed Inc. common shares are trading on the TSX Venture Exchange under ZMD symbol.

The Company's registered head office is located at 6300 Auteuil Street, Suite 121, Brossard, Québec, Canada, J4Z 3P2.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND ADOPTION OF IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. Therefore, the Company began reporting its information accordingly, in these interim consolidated financial statements. Therefore, the Company began reporting its information accordingly, in these interim consolidated financial statements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles that are applicable to a going concern. Under the going concern assumption, a company is viewed as being able to continue its operations in the foreseeable future and realize its assets and discharge its liabilities in the normal course of operations.

The continuation and growth of the Company's activities depend on its ability to gain profitability and to obtain additional financing or cash provided by operations. These funds will come from share issue, either from public or private placement or strategic alliances, or other financing sources. At this stage, it is impossible to predict, at this stage, if those elements will materialize.

The interim consolidated financial statements do not reflect adjustments that should be made to the book value of assets and liabilities in the case where the Company would be unable to realize its assets and discharge its liabilities in the normal course of operations.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND ADOPTION OF IFRS (CONT.)

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 “Interim financial Reporting” and IFRS 1 “First-time Adoption of International Financial Reporting Standards”. Subject to certain transition elections disclosed in note 20, the Company has consistently applied the same accounting policies in its opening IFRS balance sheets as at June 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 20 discloses the impact of the transition to IFRS on the Company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the fiscal year ended May 31, 2011.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of October 21, 2011, which is the date of approval of the financial statements by the board of director. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the fiscal year ending May 31, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the fiscal year ended May 31, 2011, which are considered material in understanding these interim consolidated financial statement. Note 20 disclose IFRS information for the fiscal year ended May 31, 2011 not provided in the 2011 annual financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

These interim consolidated financial statements have been prepared under the historical cost convention, except for other measurement bases, as indicated in the related notes.

Consolidation

The interim consolidated financial statements include the accounts of ZoomMed Inc. and its subsidiaries ZoomMed Médical Inc., Praxis Santé Inc., 9205-1051 Québec Inc. and ZoomMed USA Inc.

Revenue recognition

In general, revenue are recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount can be measured reliably. Revenue comprises the fair value of the consideration received or receivable for services in the ordinary course of the Company’s activities.

Revenue derived from annual contracts, related to the e-Pic network, are recognized using the straight-line method over the duration of the agreements. As provided in these contracts, payments received in advance are recorded as deferred revenue in the Consolidated Statement of financial position, and then, as operating revenue as the service is rendered.

Interests’ revenue are recorded on a fiscal year basis according to the effective interest rate method.

Financial Instruments

The classification and measurement of the financial instruments are determined as follows:

<u>Financial assets at fair value through profit or loss</u>
Cash and accounts receivables are presented as financial assets at fair value through profit and loss. They are measured at fair value and the fair value variations are recorded in the consolidated statements of comprehensive income, as financial income or financial expenses, during the period they occur.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Financial liabilities at fair value through profit or loss
Accounts payables are presented as financial liabilities at fair value through profit and loss. They are measured at fair value and the fair value variations are recorded in the consolidated statements of comprehensive income, as financial income or financial expenses, during the period they occur.

Fixed assets

Fixed assets are initially recorded at cost, including acquisition fees and all the preparation fees directly related to the asset before it can be used, less related research and development investment tax credits. Subsequent to the initial measurement, fixed assets are recorded at cost, less accumulated amortization and depreciation.

Amortization is recognized on a straight-line basis, in line with the assets useful life, as follows:

	Method	Periods
Furniture	Straight-line	5 years
Computer equipment	Straight-line	3 years
Computer equipment for ZRx Prescriber	Straight-line	3 years
Leasehold improvements	Straight-line	5 years

The Company allocates the amount initially recognized in respect of a fixed asset to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gain and losses on disposals of fixed assets are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income.

Intangible assets

The Company's intangible assets include Website, intellectual properties, licenses and rights, development costs and software with finite useful lives. These assets are capitalized and amortized on a straight-line basis in the statement of income over the period of their expected useful lives as follows:

	Periods
Website	3 years
Software	2 years
Intellectual properties	10 years
Licenses and rights	3 years
Development costs	3 years

Expenses related to development activities which do not meet generally accepted criteria for deferral and research activities are expensed as incurred. Development expenses which meet generally accepted criteria for deferral are capitalized and amortized against income over the estimated period of benefit.

The ZRx Prescriber intellectual property is recorded at cost and is amortized over a ten-year period from the marketing date of the product, which is November 2006. The PraxisLab intellectual property is recorded at cost and is amortized over a ten-year period from the date of acquisition.

The ZRx Prescriber development costs, which include the development of the e-Pic network and the additional new functionalities, according to future economic benefits, are amortized using the straight-line method over a three-year period from the implementation date of the product. PraxisLab development costs will be amortized using the straight-line method over a three-year period from the marketing date of the product.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Research and development tax credits

The Company is entitled to scientific research and development tax credits. Tax credits are accounted for using the cost reduction method. Accordingly, tax credits are recorded as a reduction of the related expenses or capital expenditures in the period in which those expenses are incurred, provided there is reasonable assurance that the credits will be realized.

Impairment of long-term assets non-financial

Items of identifiable tangible and intangible assets, with finite lives subject to depreciation or amortization respectively, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to asses at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value and an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows or cash-generating units ("CGU"). In determining value in use of a given asset or CGU, 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.

Items of amortizable identifiable tangible and intangible assets with finite lives that suffered impairment are reviewed for possible reversal of the impairment if there has been a change, since the date of the most recent impairment test, in the estimates used to determine the impaired asset's recoverable amount. However, an asset's carrying amount, increased due to the reversal of a prior impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, had the original impairment not occurred.

Lease inducement

The lease inducement includes the difference between the rental expense apportioned over the lease term according to a systematic formula and the minimum lease payment, considering the inducements.

Shareholder's Equity

Common shares are classified as equity and are recorded in the Shareholder's Equity at their issuance value. Incremental costs directly attributable to the issuance of shares and stock options are shown in equity as a deduction (as a deficit increase) net of tax from the proceeds.

Income taxes

Income taxes are accounted for, by the Company, using the asset and liability method. Accordingly, future income tax assets and income tax liabilities are measured using the income tax rates that are most likely to apply during the fiscal year where the asset is realized or the liability is settled, based on the income tax rates (and tax regulations) adopted or nearly adopted as at the reporting date. As appropriate, a valuation allowance is recognized to decrease the value of future tax assets to an amount that is more likely than not to be realized.

Stock-based compensation

The Company offers a stock-based compensation plan. The Company uses the fair value based method of accounting as regards to stock options granted to its Officers, Directors, Employees and Consultants. The fair value of stock options is determined using the Black-Scholes option pricing model, and the stock-based compensation costs are recorded in the statements of income at the granted date and credited to contributed surplus.

Any consideration received by the Company in connection with the exercise of stock options is credited to share capital and contributed surplus component of the stock-based compensation is transferred to share capital upon the issuance of shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Accounts denominated in foreign currencies

Presentation currency and foreign currency operations
The Canadian dollars is the Company's presentation currency, which is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency environment in which the entity operates using the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies at the closing date are converted into functional currencies at the exchange rates prevailing at the same date. All resulting changes are recognized in the statement of income, except monetary items included into foreign institution net investment.

Foreign institutions
Foreign intuitions' assets and liabilities denominated in functional currencies other than Canadian dollars are converted into Canadian dollars using the exchange rates prevailing at the closing date. Foreign institution revenue and expenses are converted into Canadian dollars using the exchange rates prevailing at the date of the transaction. Shareholders equity is converted at the original effective rate prevailing at the closing date. All resulting changes are recognized in other comprehensive income until the net investment is disposed of, or reclassified in the statement of income. Since the transition date, no such resulting change was recorded as foreign institutions conversion adjustments.

Basic and fully diluted earnings per share

Basic and fully diluted earnings per share are determined using the weighted average number of outstanding common shares during the fiscal year. The Company uses the treasury stock method to determine the dilutive effects of stock options and warrants when cumulating diluted earnings per share. Accordingly, the calculation of diluted earnings per share is made using the treasury stock method, as if all potentially dilutive participating shares had been exercised at the later of the beginning of the period or the date of issuance, as the case may be, and that the funds obtained thereby had been used to purchase common shares of the company at the average market value of the common shares during the period.

The fully diluted earnings per share are equal to the basic earnings per share because of the anti dilutive effect of stock options and warrants when a loss is incurred.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

Financial Instruments

In November 2009, the IASB issued IFRS 9, “Financial Instruments”, which represents the completion of the first part of a three-part project to replace IAS 39, “Financial Instruments: Recognition and Measurement”, with a new standard. Per recent updates to IFRS 9, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity’s own credit risk in the other comprehensive income or loss section of the entity’s statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to the derecognition of financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company intends to adopt this new standard as at its effective date. The Company currently is evaluating any impact that this new guidance may have on the Company’s consolidated financial statements.

Reporting entity

In May 2011, the IASB issued a group of five new standards that address the scope of the reporting entity: IFRS 10 “Consolidated financial statements”, IFRS 11 “Joint arrangements”, IFRS 12 “Disclosure of interests in other entities”, IAS 27 “Separate financial statements” and IAS 28 “Investments in associates”.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED (CONT.)

IFRS 10 replace all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation – special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control focusing on the need to have both power and variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. The renamed IAS 27 continues to be a standard dealing solely with separate financial statements and its guidance is unchanged.

IFRS 11 has changed the definitions of joint arrangements reducing the types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated and equity accounting is mandatory for all participants in joint ventures. Entities that participate in joint operations will follow an accounting method much like that for joint assets or joint operations today.

IFRS 12 sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11 replacing the disclosure requirements currently found in IAS 18. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

These standards are required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of these standards or determined whether it will adopt the standards early.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events and other matters that affect the reported amounts of the Company’s assets, liabilities, revenue, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company’s consolidated financial statements are prepared. Management reviews, on a regular basis, the Company’s accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Management considers the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of the Company’s consolidated financial statements.

Estimated useful life

The management assesses fixed assets in line with the assets useful life. The amount and the related fixed assets amortization timetable for a given period are influenced by their estimated useful life. The estimations are reviewed at least once a year and are updated if the useful life expectations are altered by physical wear, technical and commercial obsolescence.

Intangible assets

The values associated with identifiable intangible assets with finite lives are determined by applying significant estimates and assumptions.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONT.)

Valuations performed in connection with post-acquisition assessments of impairment of identifiable intangible assets are based on estimates that include risk-adjusted future cash flows. Projected cash flows are based on business forecasts, trends and expectations and are therefore inherently judgmental. Future events could cause the assumptions utilized in impairment assessments to change, resulting in a potentially significant effect on the Company's future operating results due to increased impairment charges, or reversals thereof, or adjustments to amortization charges.

Fair value of stock options

Determining the faire value of the stock options requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or other components of shareholders' equity.

Government assistance

The Company is entitled to government assistance in the form of research and development tax credits and grants. These are applied against related expenses and the cost of the asset acquired. Tax credits are available based on eligible research and development expenses consisting of direct and indirect expenditures and including a reasonable allocation of overhead expenses. Grants are subject to compliance with terms and conditions of the related agreements. Government assistance is recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program or, with regard to tax credits, when there is reasonable assurance that they will be realized.

6. BUSINESS ACQUISITION

On February 10, 2011, the Company acquired 100% of the shares of Praxis Santé Inc., a private company which develops software applications that enhances all aspects of the prescription filling process and the complete pharmacists patient file management "PraxisLab". PraxisLab uses up-to-date Web technology which is perfectly compatible with the technology used by the Company. Compensation included a cash payment of $800,000 and the issuance of 3,500,000 shares at a fair value of $647,500.

The excess of the purchase price over the fair value of net identifiable assets totalling $1,163,802 was recognized as intellectual property.

The acquisition has been accounted using the purchase method and, accordingly, the results of operations have been included in the consolidated financial statements from the date of acquisition.

The estimated fair value of the net identifiable assets acquired is attributed as follows:

Current assets	$
Cash	14,405
Accounts receivable and other receivables	72,145
	86,550
Fixed assets	13,560
Development costs	193,069
Intellectual property	1,163,802
Total assets	1,456,981
Current Liabilities	
Accounts payable and accrued liabilities	9,481
Total liabilities	9,481
Net assets acquired	1,447,500

7. ACCOUNTS RECEIVABLE

	February 29, 2012	May 31, 2011	June 1, 2010
	$	$	$
Accounts receivable	434,125	75,911	315,906
Research and development tax credits[1]	72,426	134,993	82,300
Sales tax receivable	-	-	13,442
	506,551	210,904	411,648

[1]The exact amount will be known when Revenu Quebec will process and approve the claim. Approved amount could differ from the recorded amount.

8. FIXED ASSETS

	Furniture	Computer equipment	Computer equipment for ZRx Prescriber	Leasehold improvements	Total
	$	$	$	$	$
Cost					
As at May 31, 2011	148,038	230,538	1,776,721	61,586	2,216,883
Acquisitions	1,660	4,963	41,268	-	47,891
Disposals	-	(21,008)	(89,738)	-	(110,746)
As at February 29, 2012	149,698	214,493	1,728,251	61,586	2,154,028
Accumulated amortization					
As at May 31, 2011	127,541	186,179	1,404,570	57,558	1,775,848
Amortization	10,846	17,020	167,829	2,266	197,961
Disposals	-	(19,915)	(85,758)	-	(105,673)
As at February 29, 2012	138,387	183,284	1,486,641	59,824	1,868,136
Net book value as at February 29, 2012	11,311	31,209	241,610	1,762	285,892

	Furniture	Computer equipment	Computer equipment for ZRx Prescriber	Leasehold improvements	Total
	$	$	$	$	$
Cost					
As at June 1, 2010	145,578	203,604	1,696,131	61,586	2,106,899
Acquisitions	1,540	22,634	283,629	-	307,803
Business acquisition	920	12,640	-	-	13,560
Disposals	-	(8,340)	(203,038)	-	(211,378)
As at May 31, 2011	148,038	230,538	1,776,722	61,586	2,216,884
Accumulated amortization					
As at June 1, 2010	106,891	167,106	1,216,930	48,395	1,539,322
Amortization	20,650	25,388	316,397	9,163	371,598
Disposals	-	(6,315)	(128,757)	-	(135,072)
As at May 31, 2011	127,541	186,179	1,404,570	57,558	1,775,848
Net book value as at May 31, 2011	20,497	44,359	372,152	4,028	441,036

9. INTANGIBLE ASSETS

	Website	Software	Licenses and rights	Intellectual properties	Development costs	Total
	$	$	$	$	$	$
Cost						
As at May 31, 2011	26,200	4,322	175,000	3,417,737	2,221,605	5,844,864
Acquisitions	-	-	-	-	506,037	506,037
Disposals	-	-	-	-	-	-
As at February 29, 2012	26,200	4,322	175,000	3,417,737	2,727,642	6,350,901
Accumulated Amortization						
As at May 31, 2011	26,200	4,322	175,000	1,043,365	1,651,092	2,899,979
Amortization	-	-	-	256,330	37,636	293,966
Disposals	-	-	-	-	-	-
As at February 29, 2012	26,200	4,322	175,000	1,299,695	1,688,728	3,193,945
Net book value as at February 29, 2012	-	-	-	2,118,042	1,038,914	3,156,956

	Website	Software	Licenses and rights	Intellectual properties	Development costs	Total
	$	$	$	$	$	$
Cost						
As at June 1, 2010	26,200	4,322	175,000	2,253,933	1,786,273	4,245,728
Acquisitions	-	-	-	-	320,066	320,066
Business acquisition	-	-	-	1,163,802	250,261	1,414,063
Disposals	-	-	-	-	(134,993)	(134,993)
As at May 31, 2011	26,200	4,322	175,000	3,417,735	2,221,607	5,844,864
Accumulated Amortization						
As at June 1, 2010	26,200	4,322	175,000	788,877	1,458,499	2,452,898
Amortization	-	-	-	254,488	192,593	447,081
Disposals	-	-	-	-	-	-
As at May 31, 2011	26,200	4,322	175,000	1,043,365	1,651,092	2,899,979
Net book value as at May 31, 2011	-	-	-	2,374,370	570,515	2,944,885

During fiscal year 2011, the Company applied tax credits, totalling $77,377 ($68,400 in 2010), as a reduction of capitalized development costs.

10. ACCOUNTS PAYABLE

	February 29, 2012	May 31, 2011	June 1, 2010
	$	$	$
Accounts payable and accrued liabilities	188,429	513,365	332,425
Wages and deductions at source	334,074	339,423	308,630
Sales tax	87,365	55,416	-
	609,868	908,204	641,055

11. CONVERTIBLE DEBENTURE

On September 30, 2011, the Company has issued a secured convertible debenture for a principal amount of $1,500,000, such convertible debenture being convertible at the sole option of the holders thereof into common shares of the share capital of the Company on the basis of one common share for each $0.15 in principal amount of convertible debenture. Furthermore, 10,000,000 common shares purchase warrants were issued. Each warrant entitles the holder thereof to purchase one common share at a price of $0.15 per share for 24 months following the closing date. The convertible debenture matures 24 months from the date of issuance or such earlier date which may be provided for as a redemption feature. Subject to certain conditions, the Company may redeem all or any portion of the convertible debenture upon 30 days written notice to the holders thereof in which case such holders may exercise their conversion rights, in whole or in part, prior to the intended date of redemption. The convertible debenture bears interest at a rate of 15% per annum. The convertible debenture is secured by a charge on the assets of the Company and a promissory note.

12. INFORMATION ON INCOME

	February 29, 2012 (3 months)	February 28, 2011 (3 months)	February 29, 2012 (9 months)	February 28, 2011 (9 months)
	$	$	$	$
a) Revenue:				
Operating revenue	580,957	588,434	1,847,535	1,623,164
Interest income	300	236	592	7,326
	581,257	588,670	1,848,127	1,630,490
b) Selling expenses:				
Selling expenses	162,998	216,793	545,111	565,947
Salaries and benefits	162,183	131,360	439,180	369,326
	325,181	348,153	984,291	935,273
c) Administrative expenses:				
Administrative expenses	272,341	275,835	665,871	822,292
Stock-based compensation	-	370,787	74,418	370,787
Salaries and benefits	171,881	200,927	492,090	606,488
	444,222	847,549	1,232,379	1,799,567
d) General operating expenses:				
Operating expenses	20,088	33,405	74,568	106,909
Salaries and benefits	262,785	259,895	793,057	769,521
	282,873	293,300	867,625	876,430
e) Development costs:				
Development costs	11,762	43,988	59,074	130,688
Salaries and benefits	176,108	213,118	584,847	549,341
	187,870	257,106	643,921	680,029
f) Financial expenses:				
Interest and bank charges	2,459	3,375	11,827	8,892
Interest on debenture	56,250	-	93,750	-
Transaction costs	-	-	172,173	-
	58,709	3,375	277,750	8,892

12. INFORMATION ON INCOME (CONT.)

	February 29, 2012 (3 months)	February 28, 2011 (3 months)	February 29, 2012 (9 months)	February 28, 2011 (9 months)
	$	$	$	$
g) Amortization:				
Amortization of fixed assets	66,501	113,245	197,961	267,950
Amortization of development costs	12,548	59,419	37,636	179,708
Amortization of intangible assets	85,443	56,348	256,330	169,045
	164,492	229,012	491,927	616,703

13. COMMITMENTS

a) As at February 29, 2012, the balance of commitments under operating leases amounts to $748,441.

Minimum lease payments for each of the next five years are as follows:

	2013	2014	2015	2016	2017
	$	$	$	$	$
Leasehold – Head Office	121,248	122,525	122,641	20,653	-
Leasehold – Toronto	55,646	62,211	62,211	63,247	64,284
Leasehold – Montreal	1,300	-	-	-	-
Multi-function printers	10,495	10,495	10,495	10,495	10,495
	188,689	195,231	195,347	94,395	74,779

14. SHARE CAPITAL

a) Authorized

An unlimited number of voting and participating common shares without par value.

b) Declared

	February 29, 2012	May 31, 2011	June 1, 2010
	$	$	$
130,474,687 common shares as at February 29, 2012 and May 31, 2011, and 110,841,785 as at June 1, 2010.	25,438,120	25,438,120	23,001,758

c) Transactions during the period ended February 29, 2012

No transactions occurred during the nine-month period ended February 29, 2012.

14. SHARE CAPITAL (CONT.)

d) Transaction during 2011

The Company completed a private placement for gross proceeds of $2,500,600, issuing 16,132,902 units at a price of $0.155 per unit.

- On February 9, 2011, the Company completed a first closing of a private placement, for gross proceeds of $1,992,600 issuing 12,855,483 units of the Company at a price of $0.155 per unit. Each unit is comprised of one common share in the share capital of the Company and one-half of one common share purchase warrant. Each whole warrant gives the holder the right to purchase one common share at a price of $0.17 for a period of 24 months. The Company granted an 8% cash commission to the agents and a number of warrants to purchase units equal to 8% of the total number of units sold under the offering at a price of $0.155 per unit.
- As at March 28, 2011, the Company completed its private placement for gross proceeds of $508,000, issuing 3,277,419 units at a price of $0.155 per unit. Each unit is comprised of one common share in the share capital of the Company and one-half of one common share purchase warrant. Each whole warrant gives the holder the right to purchase one common share at a price of $0.17 for a period of 24 months. An 8% cash commission was paid to the agents and the Company granted warrants to purchase units equal to 8% of the total number of units sold under the offering at a price of $0.155 per unit.

On February 10, 2011, the Company acquired 100% of the outstanding shares of Praxis Santé Inc. Compensation included a cash payment of $800,000 and the issuance of 3,500,000 shares at a fair value of $647,500.

The fair value of the units awarded to agents during the fiscal year 2011 was estimated on the grant date using the Black-Scholes pricing model with the following assumptions:

	May 31, 2011	
Date	March 28, 2011	February 9, 2011
Quantity	262,193	1,028,439
Stock price	$0.155	$0.155
Dividend yield	Nil	Nil
Expected volatility	90%	90%
Risk-free interest rate	1.75%	1.87%
Expected life	24 months	24 months

Fees paid to agents in relation to the private placement represented a $120,099 share issue cost during the fiscal year 2011.

e) Share capital reconciliation

	Number	Declared
		$
Balance as at June 1, 2010	110,841,785	23,001,758
Private placement issue (February & March 2011)	16,132,902	1,788,862
Business acquisition issue (February 2011)	3,500,000	647,500
Balance as at May 31, 2011	130,474,687	25,438,120
	-	-
Balance as at February 29, 2012	130,474,687	25,438,120

14. SHARE CAPITAL (CONT.)

f) Escrowed shares

In accordance with the requirements of the TSX Venture Exchange, all of the 18,000,000 issued common shares from the reverse takeover were held in escrow under a security escrow agreement.

Under the terms of the agreement, no percentage of common shares held in escrow were released upon publication of the Final Exchange Bulletin and 5% of the original number of escrowed common shares were released on a six-month intervals on the 6th, 12th, 18th, 24th and 10% were released on the 30th, 36th, 42nd, 48th, 54th, 60th, 66th and 72nd following the initial release. The escrow agreement ended August 8, 2011.

As at May 31, 2011, 1,800,000 common shares were still held in escrow.

15. STOCK OPTION PLAN

The shareholders of the Company approved a resolution modifying the stock option plan from a 10% “fixed” stock option plan to a 10% “rolling” stock option plan as described in the management proxy circular for the annual and special meeting of shareholders held November 25, 2011. Under the plan terms, the exercise price of the options will be determined by the Directors of the Company subject to other restrictions described in the plan and some requirements of the TSX Venture Exchange. The maximum period for which an option can be exercise is limited to five years and the exercise price must be paid in full before the issuance of the shares.

The following table summarizes the changes in the plan position for the period ended February 29, 2012 and the fiscal year ended May 31, 2011:

	Options	Average exercise price
		$
Balance as at June 1, 2010	9,721,500	0.31
Awarded	3,207,500	0.20
Cancelled	(2,735,000)	0.24
Balance as at May 31, 2011	10,194,000	0.29
Awarded	4,740,000	0.15
Cancelled	(2,681,500)	0.23
Balance as at February 29, 2012	12,252,500	0.25

15. STOCK OPTION PLAN (CONT.)

The following table summarizes the information about the outstanding stock options for the period ended February 29, 2012 and the fiscal year ended May 31, 2011.

a) As at February 29, 2012

Outstanding options			Exercisable options	
Number	Weighted average remaining contractual life (months)	Weighted average exercise price	Number	Weighted average exercise price
		$		$
2,772,500	2	0.50	2,772,500	0.50
2,215,000	17	0.20	2,215,000	0.20
100,000	30	0.32	100,000	0.32
2,390,000	46	0.20	2,390,000	0.20
35,000	46	0.20	35,000	0.20
4,740,000	57	0.15	[1] [2] 4,740,000	0.15
12,252,500	34	0.25	12,252,500	0.25

[1] The 4,740,000 stock options issued under this plan are subject to transfer restrictions for a period of four months from the grant date.
[2] 260,000 stock options awarded to employees are held in escrow by the Company and will be released according to set objectives.

Transactions during the period ended February 29, 2012.

In November 2011, the Company granted 4,740,000 stock options which entitle the holders to purchase 4,740,000 common shares at an exercise price of $0.15 per share for a period of five years.

The fair value of the stock options awarded during the period ended February 29, 2012 was estimated on the grant date using the Black-Scholes' options pricing model with the following assumptions:

	February 29, 2012
Date	November 30, 2011
Quantity	4,740,000
Stock price	$0.075
Dividend yield	Nil
Expected volatility	45%
Risk-free interest rate	1.46%
Expected life	60 months

The non-recurrent stock-based compensation expense amounts to $74,418 for the nine-month period ended February 29, 2012.

15. STOCK OPTION PLAN (CONT.)

b) As at May 31, 2011

Outstanding options			Exercisable options	
Number	Weighted average remaining contractual life (months)	Weighted average exercise price	Number	Weighted average exercise price
989,000	1	$0.20	989,000	$0.20
640,000	6	$0.20	640,000	$0.20
150,000	8	$0.25	150,000	$0.25
3,037,500	11	$0.50	3,037,500	$0.50
2,575,000	26	$0.20	2,575,000	$0.20
100,000	39	$0.32	100,000	$0.32
100,000	39	$0.20	100,000	$0.20
2,567,500	55	$0.20	2,567,500	$0.20
35,000	55	$0.20	35,000	$0.20
10,194,000	25	$0.29	10,194,000	$0.29

Transaction during 2011

On December 2010, the Company granted 3,207,500 stock options which entitle the holder to purchase 3,207,500 common shares at an exercise price of $0.20 per share for a period of five years.

The fair value of the stock options awarded during 2011 was estimated on the grant date using the Black-Scholes' options pricing model with the following assumptions:

	May 31, 2011	
Date	December 13, 2010	December 16, 2010
Quantity	3,172,500	35,000
Stock price	$0.17	$0.17
Dividend yield	Nil	Nil
Expected volatility	90%	90%
Risk-free interest rate	2.49%	2.49%
Expected life	60 months	60 months

The non-recurrent stock-based compensation expense amounts to $370,787 for the fiscal year ended May 31, 2011.

16. WARRANTS

The following table summarizes the changes in the plan position for the period ended February 29, 2012 and the fiscal year ended on May 31, 2011.

	Warrants	Weighted average Exercise price	Value
		$	$
Balance as at June 1, 2010	13,205,747	0.35	1,794,661
Warrants expired	(13,205,747)	0.35	(1,794,661)
Awarded to investors	8,066,452	0.17	711,737
Awarded to brokers	645,316	0.17	56,939
Balance as at May 31, 2011	8,711,768	0.17	768,676
Awarded to the debenture holders	10,000,000	0.15	-
Balance as at February 29, 2012	18,711,768	0.16	768,676

a) Transactions during the period ended February 29, 2012

On September 30, 2011, in connection with the convertible debenture, the Company issued 10,000,000 warrants. Each warrant entitles the holders thereof to purchase one common share at a price of $0.15 per share for 24 months following the closing date.

The following table summarizes the information about the outstanding warrants owned by public investors and agents as at February 29, 2012.

Outstanding warrants		
Number	Weighted average remaining contractual life (months)	Weighted average exercise price
		$
6,427,742	12	0.17
514,219	12	0.17
1,638,710	13	0.17
131,097	13	0.17
10,000,000	19	0.15
18,711,768	16	0.16

b) Transaction during 2011

On July 8, 2010, 13,205,747 warrants, with an exercise price of $0.35 each, have expired. These warrants were cancelled and the total carrying value, which was $1,794,661, was transferred to the contributed surplus.

On February 9, 2011, the Company completed a first closing of a private placement, for gross proceeds of $1,992,600 issuing 12,855,483 units of the Company at a price of $0.155 per unit. Each unit is comprised of one common share in the share capital of the Company and one-half of one common share purchase warrant. Each whole warrant gives the holder the right to purchase one common share at a price of $0.17 for a period of 24 months. The Company granted an 8% cash commission to the agents and a number of warrants to purchase units equal to 8% of the total number of units sold under the offering at a price of $0.155 per unit.

16. WARRANTS (CONT.)

As at March 28, 2011, the Company completed its private placement for gross proceeds of $508,000, issuing 3,277,419 units at a price of $0.155 per unit. Each unit is comprised of one common share in the share capital of the Company and one-half of one common share purchase warrant. Each whole warrant gives the holder the right to purchase one common share at a price of $0.17 for a period of 24 months. An 8% cash commission was paid to the agents and the Company granted warrants to purchase units equal to 8% of the total number of units sold under the offering at a price of $0.155 per unit.

The following table summarizes the information about the outstanding warrants owned by public investors and agents as at May 31, 2011.

Outstanding warrants		
Number	Weighted average remaining contractual life (months)	Weighted average exercise price
		$
6,427,742	21	0.17
514,219	21	0.17
1,638,710	22	0.17
131,097	22	0.17
8,711,768	21	0.17

17. FINANCIAL INSTRUMENTS

Fair value

The fair value of cash, accounts receivable and accounts payable is equal to their carrying amount given their forthcoming maturities.

Section 3862, “Financial Instruments – Disclosures and presentation”, was amended to require additional disclosure regarding fair value measurements, including a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three level of hierarchy regarding fair value measurements are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Inputs, other than quoted prices, for which assets or liabilities are directly or indirectly observable;
- Level 3 – Inputs that are not based on observable market data.

As at February 29, 2012, May 31, 2011 and June 1, 2010, all assets and liabilities were classified as level 1.

Credit risk management

The Company extends credit to its customers in normal course of business. Ongoing credit assessments are conducted and the balance sheet reflects the allowance for doubtful accounts. No qualitative assessment was conducted, since the management believes the credit risk is immaterial.

Interest rate risk management

The Company does not have any variable rate debt. Furthermore, the Company invests some of its cash in financial instruments bearing guaranteed interest. These financial instruments represent a minimal risk for the Company.

17. FINANCIAL INSTRUMENTS (CONT.)

Market risk

The future performance of the Company is dependent on the continued popularity of its existing products and its ability to develop and introduce products that gain acceptance and satisfy consumer preferences in targeted markets. The popularity of any of its products may decline over time as consumer preferences change or as new competing products are introduced in targeted markets. The development of new systems and their distribution within the targeted market, require significant investments.

Liquidity risk

In order to meet additional capital requirements, the Company may consider collaborative arrangements and additional public or private financing to fund all or a part of particular product development programs. Private financing could include the incurrence of debt and the issuance of additional equity securities, which could result in dilution to shareholders. There can be no assurance that additional funding will be available. The Company manages this risk by establishing detailed cash forecasts, as well as long-term operating and strategic plans. According to these forecasts, most of its cash flows for operating activities will be generated by pharmaceutical corporations and pharmacies contracts for the use of the e-Pic network.

Key personnel risk

Recruiting and retaining qualified personnel is essential to the Company's success. The Company believe that it has been successful in recruiting excellent personnel to help it meet their objectives but, as its activities grow, it is possible that additional key personnel in departments like; administration, research and development, as well as marketing will be required. Although the Company believe that it will be successful in attracting qualified personnel, there can be no assurance to that effect.

18. CAPITAL DISCLOSURES

In regards to capital management, the Company's objective, from the beginning of its operations, is the continuity of its operations in order to carry on with the development and marketing of the e-Pic network, the protection of its assets, while maximizing the shareholders return on investment. The company is not subject to any externally imposed capital requirements. The Company has several options regarding its capital needs. See Note 17 for more details.

The Company defines its capital as the sum of its shareholders equity and long-term debts. The shareholders equity ($796,590 as at February 29, 2012, $3,371,938 as at May 31, 2011 and $3,827,243 as at June 1, 2010) includes: share capital, warrants, contributed surplus and deficit. Long-term debts account for $1,500,000 as at February 29, 2012 and were nonexistent, as at May 31, 2011 and June 1, 2010. The capital decrease of $2,575,348 during the period ended February 29, 2012 is the result of the deficit of the period.

19. RELATED PARTY TRANSACTIONS

a) Key management compensation

Key management is those persons having authority and responsibility for planning, managing and controlling the Company's activities, including the Directors and Executives. Key management participates to the stock option plan. Key management wage compensation, for the nine-month periods ended February 29, 2012 and February 28, 2011 totalized $450,000. Furthermore, as at November 30, 2011, 690,000 stock options, at a price of $0.15 for a period of 5 years, were awarded to key management and represent a stock-based compensation cost of $10,833.

19. RELATED PARTY TRANSACTIONS (CONT.)

b) Related party transactions

During the nine-month period ended February 29, 2012, the Company paid professional fees totalling $64,890 ($64,890 in 2011) to a corporation owned by a shareholder and officer of the Company. Accounts payable include an amount of $7,210 for the nine-month periods ended February 29, 2012 and February 28, 2011.

Related party transactions terms and conditions

The balances, as at the end of the period, are not guaranteed and bear no interest, as it is a cash settlement. No guaranties were given or received regarding receivables or payables between the related parties. For the nine-month periods ended February 29, 2012 and February 28, 2011, the Company did not record any depreciation as regards to outstanding related party receivables. An assessment is performed at each financial period, by examining the related party financial statements and the market in which the related party operates.

20. TRANSITION TO IFRS

The Company' consolidated interim financial statements have been prepared in accordance with IFRS, as described in notes 2 and 3. This is the Company's first year to produce consolidated financial statements under IAS 34 and IFRS 1 "First-time Adoption of IFRS". The Company's adoption date is June 1, 2011, and the consolidated financial statements reporting date in February 29, 2012. However, the Company's IFRS transition date is June 1, 2010, being the first comparative period. The Company prepared its opening IFRS statement of financial position at that date.

IFRS1 is based on the principle that the adoption of IFRS should be applied retrospectively. However, IFRS 1 offers certain optional exemptions and mandatory exceptions to the retrospective application of IFRS to first-time preparers of IFRS financial statements. Those exemptions and exceptions, which are relevant to the Company, are discussed in turn below.

IFRS EXEMPTION OPTIONS

Business combinations – IFRS 1 allows an entity to apply IFRS 3, Business Combinations either retrospectively to all combinations, retrospectively from a certain point forward or prospectively to acquisitions occurring after the Company's transition date (June 1, 2010). The Company has elected to apply IFRS 3 prospectively. Therefore, business combinations prior to June 1, 2010 were not reclassified.

Share-based Payments – IFRS 1 - encourages application of its IFRS 2 - *Share-based payments* provision to equity instruments granted on or before November 7, 2002, but also permits the application of IFRS 2, only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and therefore applied IFRS 2 only to all equity instruments granted after January 1, 2006 that had not vested by the Transition Date.

Designation of previously recognized financial instruments – IFRS 1 permits to re-designate financial instruments previously recognized, provided that the financial asset or liability meets certain criteria in IAS 39 - Financial Instruments: Recognition and Measurement. The company decided to maintain its financial instruments designation.

Fair or reassessment value as deemed cost – IFRS 1 permits to assess its fixed assets at their fair value as at transition date and subsequently use the fair value as deemed cost. The company decided not to reassess its fixed assets at fair value as at transition date.

20. TRANSITION OF IFRS (CONT.)

IFRS MANDATORY EXCEPTIONS

Accounting estimates – In accordance with IFRS 1, the estimates recognized according with IFRS as at the transition date must be coherent with the estimates recognized, at the same date, according with earlier GAAP, after adjustments to reflect any difference between the accounting methods, unless objective evidences show that these estimates were incorrect. Thereby, the first-time adopter can not use information retrospectively in order to recognize or modify accounting estimates. The prior recognised estimates by the Company, in accordance with Canadian GAAP, were not modified, except if necessary in order to reflect any difference between both methods.

RECONCILIATION BETWEEN IFRS AND CANADIAN GAAP

IFRS 1 requires to explain the transition impact from earlier GAAP to IFRS of its financial position, its financial performance and its cash flows. Consequently, the Company must disclose the reconciliations as at June 1, 2010, February 28, 2011 and also May 31, 2011 regarding its equity, and as at May 31, 2011 and February 29, 2012 regarding its comprehensive income. It should be noted that the transition from GAAP to IFRS did not have a significant impact on the Company's generated cash flows.

The following information presents the reconciliations between Canadian GAAP and IFRS regarding balances and required periods.

Reconciliation of equity

	Notes	May 31, 2011	February 28, 2011	June 1, 2010
		$	$	$
Equity – GAAP Canadian		4,231,897	4,203,064	4,681,892
Intangible assets – future income taxes	a)	(682,000)	(682,000)	(682,000)
Amortization	b)	(177,959)	(170,921)	(172,649)
Equity – IFRS		3,371,938	3,350,143	3,827,243

Reconciliation of statements of comprehensive loss

	For the nine-month period ended February 28, 2011			
	Canadian GAAP	Note	Adjustments	IFRS
	$		$	$
Revenue	1,630,490		-	1,630,490
Operating expenses excluding amortization	4,300,191		-	4,300,191
Amortization	618,430	c)	(1,727)	616,703
Net loss and comprehensive loss	(3,288,131)		1,727	(3,286,404)

Reconciliation of statements of comprehensive loss

	For the fiscal year ended May 31, 2011			
	Canadian GAAP	Note	Adjustments	IFRS
	$		$	$
Revenue	2,883,008		-	2,883,008
Operating expenses excluding amortization	5,769,445		-	5,769,445
Amortization	813,369	c)	5,311	818,680
Net loss and comprehensive loss	(3,699,806)		(5,311)	(3,705,117)

20. TRANSITION OF IFRS (CONT.)

a) Intangible assets – Canadian GAAP previously allowed the Company to increase the intellectual property cost by its related future income taxes, while IFRS does not. A $682,000 unamortized amount was recorded against equity and the related intangible asset as at the transition date. As a result of this change, the related intellectual property accumulated amortization was reduced by an amount of $238,700. The net result, as at the transition date, represents a $443,300 intangible asset net book value decrease and a deficit increase.

b) Fixed assets – IFRS requires that the amount of amortization of an asset be distributed systematically over its useful life and that the amortization method reflects the rate at which the company expects to consume the future economic benefits related to the asset. Those requirements were less explicit in Canadian GAAP.

IFRS specifies that strait-line amortization leads to a constant charge over the useful life of the asset, if the asset residual value does not change. The Company assessed that, according to this definition, strait-line amortization method best reflects the rate at which the company expects to consume the future economic benefits related to its fixed assets.

The cumulative impact of changing from the declining method (Canadian GAAP) to the strait-line method (IFRS) has reduced by $484,859 the carrying value of fixed assets as a result of the same amount increase in cumulated amortization as at the transition date, along with a deficit increase.

c) Amortization – For the nine-month period ended February 28, 2011, the adoption of the new amortization method has generated a $1,727 decrease and a $5,311 increase for the fiscal year ended May 31, 2011.