ZOOMMED

La puissance à portée de la main

Consolidated Financial Statements for the quarter ended August 31, 2010

Le réseau de communication des professionnels de la santé au service du patient

INTERIM FINANCIAL REPORT
AS AT AUGUST 31, 2010

To the shareholders of
ZOOMMED INC.

MANAGEMENT COMMENTS

The consolidated interim financial statements of ZoomMed Inc. for the period ended August 31, 2010 and all information contained in this interim financial report are the responsibility of the management and have been approved by the Board of Directors.

The consolidated interim financial statements were prepared by the management in accordance with generally accepted accounting principles and are 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 external auditors' report and recommends their approval by the Board of Directors.

Consolidated interim financial statements for the three-month period ended August 31, 2010 and August 31, 2009 as well as related comparative data, have not been reviewed or audited by external auditors.

October 16, 2010

Yves Marmet

Yves Marmet,
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2010 AND 2009

		August 31, 2010 (3 months) (unaudited)		August 31, 2009 (3 months) (unaudited)
REVENUE (Note 5)	$	539,809	$	174,466
OPERATING EXPENSES				
Selling expenses		241,508		252,767
Administrative expenses (Note 5)		496,147		513,022
General operating expenses		285,921		284,852
Development Costs		167,667		186,297
Financial expenses		2,796		4,003
Amortization (Note 5)		203,803		293,391
		1,397,842		1,534,332
LOSS BEFORE INCOME TAXES		(858,033)		(1,359,866)
INCOME TAXES		-		-
NET LOSS	$	(858,033)	$	(1,359,866)
BASIC AND DILUTED EARNINGS PER SHARE	$	(0.008)	$	(0.014)
WEIGHTED AVERAGE NUMBER OF OUTSTANDING COMMON SHARES		110,841,785		98,341,785

CONSOLIDATED BALANCE SHEETS
AS AT AUGUST 31, 2010 AND MAY 31, 2010

		August 31, 2010 (unaudited)		May 31, 2010 (audited)
ASSETS				
CURRENT ASSETS				
Cash	$	1,492,302	$	2,632,065
Accounts receivable (Note 6)		355,364		411,648
Prepaid expenses		29,362		30,771
		1,877,028		3,074,484
FIXED ASSETS (Note 7)		912,360		978,925
INTANGIBLE ASSETS (Note 8)		2,202,580		2,236,130
	$	4,991,968	$	6,289,539
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable (Note 9)	$	545,020	$	641,055
Deferred revenues		619,910		958,833
		1,164,930		1,599,888
LEASE INDUCEMENT		6,572		7,759
		1,171,502		1,607,647
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 11)		23,001,758		23,001,758
WARRANTS (Note 13)		-		1,794,661
CONTRIBUTED SURPLUS		4,859,837		3,065,176
DEFICIT		(24,041,129)		(23,179,703)
		3,820,466		4,681,892
	$	4,991,968	$	6,289,539

ON BEHALF OF BOARD OF DIRECTORS

Director

Director

CONSOLIDATED STATEMENTS OF DEFICIT AND CONTRIBUTED SURPLUS
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2010 AND 2009

		August 31, 2010 (3 months) unaudited		August 31, 2009 (3 months) unaudited
DEFICIT				
BALANCE, BEGINNING OF YEAR	$	(23,179,703)	$	(18,813,498)
Net loss		(858,033)		(1,359,866)
Share issue expenses		(3,393)		-
BALANCE, END OF YEAR	$	(24,041,129)	$	(20,173,364)
CONTRIBUTED SURPLUS				
BALANCE, BEGINNING OF YEAR	$	3,065,176	$	2,613,870
Fair market value of stock options granted (Note 12)		-		43,110
Expired warrants (Note 13)		1,794,661		192,500
BALANCE, END OF YEAR	$	4,859,837	$	2,849,480

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2010 AND 2009

	August 31, 2010 (3 months) unaudited	August 31, 2009 (3 months) unaudited
OPERATING ACTIVITIES		
Net loss	$ (858,033)	$ (1,359,866)
Amortization	203,803	293,391
Increase in long-term debt	-	2,153
Stock-based compensation	-	43,110
Loss (gain) on disposal of fixed assets	8,667	(4,458)
Lease inducements	(1,187)	(1,186)
Unrealized appreciation on investment	-	(18,630)
	(646,750)	(1,045,486)
Net change in non-cash operating working capital items	(377,264)	(62,128)
Cash flows used in operating activities	(1,024,014)	(1,107,614)
FINANCING ACTIVITIES		
Repayments of long-term debt	-	(18,611)
Share issue expenses	(3,393)	-
Cash flows from financing activities	(3,393)	(18,611)
INVESTING ACTIVITIES		
Proceeds from disposal of a guaranteed investment certificate	-	1,000,000
Acquisition of fixed assets	(53,833)	(95,421)
Proceeds from disposal of fixed assets	40,419	10,135
Acquisition of intangible assets	(98,942)	(93,142)
Cash flows from (used) in investing activities	(112,356)	(821,572)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,139,763)	(304,653)
CASH, BEGINNING OF YEAR	2,632,065	606,397
CASH, END OF YEAR	$ 1,492,302	$ 301,744

Cash flows related to operating activities include interest paid in the amount of $141 for the three-month period in 2009. There was no interest paid for the three-month period in 2010.

1. IDENTIFICATION AND INDUSTRY

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

ZoomMed Inc. and its subsidiaries (“ZoomMed”) is 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.

In close connection with this network, the ZRX Prescriber is a web application that runs on a wireless device or computers. Thanks to this tool, a physician can write a prescription, which includes a bar-code, allowing pharmacists to access (scan) the information on line.

The ZRX Prescriber is also, for the physician, a mobile source of information coming from pharmaceutical corporations, as well as private and public institutions.

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

The Company common shares are trading on the TSX Venture Exchange under ZMD symbol.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of ZoomMed Inc. and its subsidiaries ZoomMed Medical Inc. and ZoomMed USA Inc. The latter had no activities during three-month period ending August 31, 2010.

Revenue recognition

Revenues derived from annual contracts, related to the e-Pic network, are recognized, using the straight-line method over the duration of the related agreements.

Financial assets and liabilities

ZoomMed has elected to classify cash, accounts receivable and investments as “held for trading”. Consequently, any changes in the fair value of these assets will be recorded directly in net results.

Accounts payable and long-term debts are classified in “other liabilities” and accounted for at cost. Transaction costs related to “other liabilities” are capitalized and, recognized using the effective interest rate method and recorded in the net result.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Fixed assets

Fixed assets are recorded at cost and are amortized using the following methods and rates:

	Method	Rates
Furniture and sign	Declining balance	20%
Computer equipment	Declining balance	30%
Computer equipment for ZRx Prescriber	Declining balance	30%
Leasehold improvements	Straight-line	20% - 10%

Intangible assets

Intangible assets are recorded at cost and are amortized using the straight-line method and the following rates:

	Rates
Website	33%
Software	50%
Intellectual property	10%
Licenses and rights	33%
Development costs	33%

Intellectual property is recorded at cost, plus related future income taxes, and will be amortized over a ten-year period from the marketing date of the product, starting November 2006.

The development costs, including the initial development of e-Pic network and new functionalities according to future economic benefits are amortized using the straight-line method over a three-year period from the marketing date of the product.

ZoomMed reviews the recoverability of the deferred development costs valuing the future forecasted cash flows related to the marketing of the products to which these fees are linked.

Government assistance

The portion of investment tax credits related to capitalized development costs are applied against these costs.

Impairment of long-term assets

An impairment loss is recognized when an event or situation indicates that the carrying amount of a long-term asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recognized within the period of the impairment.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Stock-based compensation

The Company uses the fair value based method (Black & Scholes) of accounting for all stock options granted to its officers, directors, employees and consultants whereby a compensation expense is recognized on the day the options are granted, with a corresponding increase to contributed surplus. When options are exercised, capital stock is credited by the sum of consideration paid together with the released portion previously recorded to the contributed surplus.

Accounts denominated in foreign currencies

Accounts denominated in foreign currencies are translated using the temporal method. Under this method, monetary balance sheet items are translated using the exchange rates in effect at year end and non-monetary items are translated using the historical exchange rates. Revenues and expenses, other than amortization and cost of goods which are translated using the same exchange rates as the related assets, are translated using the average exchange rates for the period. Profits and losses are included in the corresponding financial results.

Use of accounting estimates

Preparation of these financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in financial statements and related notes. Estimates are based on management's best knowledge of current events and actions ZoomMed may undertake in the future. Actual results could differ from those estimates.

Financial statements items that require such estimates include future benefits from development costs, intellectual property, future income tax assets and goodwill, income tax provision, the recoverable amount of research and development tax credits, the assumptions used in the determination of the stock-based compensation charge and fair value of financial instruments.

Basic and fully diluted earnings per share

Basic and fully diluted earnings per share are calculated using the weighted average number of outstanding common shares during the year. ZoomMed uses the treasury stock method to determine the dilutive effects of stock options and warrants when cumulating diluted earnings per share. The fully diluted earnings per share are equal to the basic earnings per share because of their anti dilutive effect when a loss is incurred.

3. CHANGES IN ACCOUNTING POLICIES

Financial Instruments – Disclosures (Section 3862)

During fiscal year 2010, ZoomMed adopted the new accounting standards related to Section 3862. This Section was amended to include additional disclosure requirements regarding fair value measurements. These new standards had no material impact on ZoomMed's consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES (CONT.)

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (CPN-173)

During fiscal year 2010, ZoomMed adopted a new pronouncement published by the Emerging Issues Committee (EIC-173). The Committee requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets. These new recommendations had no material impact on the consolidated financial statements.

4. FUTURES CHANGES IN ACCOUNTING POLICIES

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In December 2008, the CICA approved three new accounting standards Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”, replacing Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements”. Section 1582 provides the Canadian equivalent to IFRS 3 – “Business Combinations” (January 2008) and Sections 1601 and 1602 to IAS 27 – “Consolidated and Separate Financial Statements” (January 2008). Section 1582 requires additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for the accounting of a business combination. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Entities adopting Section 1582 will also be required to adopt Sections 1601 and 1602.

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards will require a change in the measurement of non-controlling interest and will require the non-controlling interest to be presented as part of shareholders' equity on the balance sheet. In addition, the net earnings will include 100% of the subsidiary's results and will be allocated between the controlling interest and non-controlling interest. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. All three standards are effective at the same time Canadian public corporations will have adopted IFRS, for fiscal year beginning on or after January 1, 2011. We are currently evaluating the impact of these standards on the consolidated financial statements.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (ACSB) confirmed January 1, 2011 as the date that IFRS will replace current Canadian GAAP for publicly accountable enterprises. Even if Canadian GAAP and IFRS are both principles-based and use comparable conceptual frameworks, there are significant recognition, measurement, presentation and disclosure differences. In the period leading up to the changeover, the ACSB expect to issue converged accounting standards, intentionally mitigating the impact of adopting IFRS at the changeover date. We plan to prepare ours interim and annual financial statements in accordance with IFRS for periods commencing on June 1, 2011. The Management's Discussion and Analysis gives a detailed, four steps, transition plan with the implementation schedule and a table containing preliminary conclusions. We are currently evaluating the impact of these standards on the consolidated financial statements.

5. INFORMATION ON INCOME

			2010		2009
a)	Revenue:				
	Operating revenue	$	536,880	$	155,596
	Interest income		2,929		18,870
		$	539,809	$	174,466
b)	Administrative expenses				
	Administrative expenses	$	496,147	$	469,912
	Stock-based compensation		-		43,110
		$	496,147	$	513,022
c)	Amortization:				
	Amortization of fixed assets	$	71,311	$	92,477
	Amortization of development costs		59,094		100,019
	Amortization of intangible assets		73,398		100,895
		$	203,803	$	293,391

6. ACCOUNTS RECEIVABLE

		August 31, 2010		May 31, 2009
Accounts receivable	$	238,578	$	315,906
Research and development tax credits[1]		82,300		82,300
Sales tax receivable		34,486		13,442
	$	355,364	$	411,648

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

7. FIXED ASSETS

August 31, 2010		COST		ACCUMULATED AMORTIZATION		NET BOOK VALUE
Furniture and sign	$	146,008	$	81,566	$	64,442
Computer equipment		206,779		130,900		75,879
Computer equipment for ZRx Prescriber		1,626,215		864,309		761,906
Leasehold improvements		61,586		51,453		10,133
	$	2,040,588	$	1,128,228	$	912,360

May 31, 2010		COST		ACCUMULATED AMORTIZATION		NET BOOK VALUE
Furniture and sign	$	145,578	$	78,173	$	67,405
Computer equipment		203,604		124,952		78,652
Computer equipment for ZRx Prescriber		1,696,130		876,453		819,677
Leasehold improvements		61,586		48,395		13,191
	$	2,106,898	$	1,127,973	$	978,925

8. INTANGIBLE ASSETS

	August 31, 2010		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Amortized intangible assets			
Website	$ 26,200	$ 26,200	$ -
Software	4,322	4,322	-
Licenses and rights	175,000	175,000	-
Intellectual property	2,935,934	1,100,975	1,834,959
Development costs	1,885,214	1,517,593	367,621
	$ 5,026,670	$ 2,824,090	$ 2,202,580

	May 31, 2010		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Amortized intangible assets			
Website	$ 26,200	$ 26,200	$ -
Software	4,322	4,322	-
Licenses and rights	175,000	175,000	-
Intellectual property	2,935,934	1,027,577	1,908,357
Development costs	1,786,272	1,458,499	327,773
	$ 4,927,728	$ 2,691,598	$ 2,236,130

During fiscal year 2010, ZoomMed applied research and development tax credits, of $68,400, as a reduction of capitalized development costs.

9. ACCOUNTS PAYABLE

	August 31, 2010	May 31, 2010
Accounts payable and accrued liabilities	$ 342,399	$ 332,425
Wages and deductions at source	202,621	308,630
	$ 545,020	$ 641,055

10. COMMITMENTS

a) As at August 31, 2010, the balance of commitments under operating leases amounts to $186,543. Minimum lease payments in each of the next three years are as follows:

	2011	2012	2013
Leasehold - Head office	$ 49,321	$ -	$ -
Leasehold - Toronto	60,283	60,283	-
Multi-function printer	7,013	7,013	2,630
	$ 116,617	$ 67,296	$ 2,630

10. COMMITMENTS (CONT.)

b) ZoomMed signed a three year professional service agreement for the purpose of developing a software interface between the Assyst-Rx system and the e-Pic network for a minimum annual price of $162,000 for a period of three years. The interface will provide an inter-communication between the Assyst-Rx system and the e-Pic network in order to allow pharmacies and physicians to exchange information.

11. SHARE CAPITAL

a) Authorized

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

b) Issued and fully paid

	August 31, 2010	May 31, 2010
110,841,785 common shares	$ 23,001,758	$ 23,001,758

c) Transactions during the period ended August 31, 2010.

No transactions occurred during the three-month period ended August 31, 2010.

d) Transaction during 2010

On May 2010, the Company completed a private placement, for gross proceeds of $2,500,000, issuing 12,500,000 shares of the Company at a price of $0.20 per share.

e) Share capital reconciliation

	Number	Issued and fully paid
Balance as at May 31, 2009	98,341,785	$ 20,501,758
Issued related to the private placement (May 2010)	12,500,000	2,500,000
Balance as at May 31, 2010	110,841,785	$ 23,001,758
	-	-
Balance as at August 31, 2010	110,841,785	$ 23,001,758

f) Escrowed shares

In accordance with the requirements of the TSX Venture Exchange, all of the 3,000,000 common shares issued before the initial public offering and the 18,000,000 issued common shares from the reverse takeover are held in escrow under two securities escrow agreements.

11. SHARE CAPITAL (CONT.)

For the first agreement representing 3,000,000 common shares, under the terms of the agreement, 10% of common shares held in escrow were released upon publication of the Final Exchange Bulletin and 15% of the original number of escrowed common shares were released on a six-month intervals on the 6th, 12th, 18th, 24th, 30th and 36th months following the initial release. The agreement ended on August 8, 2008.

For the second agreement representing 18,000,000 common shares, 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 months and 10% will be released on the 66th, 72nd months following the initial release. The second escrowed agreement will end on August 8, 2011.

As at August 31, 2010, 3,600,000 common shares (5,400,000 as at May 31, 2010) were still held in escrow.

12. 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 20, 2009. 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 August 31, 2010 and the year ended on May 31, 2010:

	Options	Average Exercise price
Balance as at May 31, 2009	9,641,500	$0.31
Awarded	300,000	$0.24
Cancelled	(220,000)	$0.37
Balance as at May 31, 2010	9,721,500	$0.31
Cancelled	(1,950,000)	$0.24
Balance as at August 31, 2010	7,771,500	$0.32

12. STOCK OPTION PLAN (CONT.)

The following table summarizes the information about the outstanding stock options for the period ended August 31, 2010 and the year ended May 31, 2010.

a) As at August 31, 2010

Outstanding options			Exercisable options	
Number	Weighted average remaining contractual life (months)	Weighted average exercise price	Number	Weighted average exercise price
994,000	10	$0.20	994,000	$0.20
640,000	15	$0.20	640,000	$0.20
150,000	17	$0.25	150,000	$0.25
3,087,500	20	$0.50	3,087,500	$0.50
50,000	26	$0.40	50,000	$0.40
2,650,000	35	$0.20	2,650,000	$0.20
100,000	48	$0.32	100,000	$0.32
100,000	48	$0.20	100,000	$0.20
7,771,500	24	$0.32	7,771,500	$0.32

Transactions during the period ended August 31, 2010.

No transactions occurred during the three-month period ended August 31, 2010.

b) As at May 31, 2010

Outstanding options			Exercisable options	
Number	Weighted average remaining contractual life (months)	Weighted average exercise price	Number	Weighted average exercise price
540,000	1	$0.20	540,000	$0.20
1,205,000	3	$0.25	1,205,000	$0.25
994,000	13	$0.20	994,000	$0.20
640,000	18	$0.20	640,000	$0.20
150,000	20	$0.25	150,000	$0.25
3,087,500	23	$0.50	3,087,500	$0.50
50,000	29	$0.40	50,000	$0.40
100,000	34	$0.40	100,000	$0.40
2,655,000	38	$0.20	2,655,000	$0.20
100,000	51	$0.32	100,000	$0.32
200,000	51	$0.20	200,000	$0.20
9,721,500	23	$0.31	9,721,500	$0.31

12. STOCK OPTION PLAN (CONT.)

Transactions during 2010

On August 13, 2009, the Company granted 100,000 options which entitle the holder to purchase 100,000 common shares at an exercise price of $0.32 per share for a period of five years.

On August 26, 2009, the Company granted 200,000 options which entitle the holder to purchase 200,000 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 the year 2010 was estimated on the grant date using the Black-Scholes pricing model with the following assumptions:

	May 31, 2010	
Date	August 13, 2009	August 26, 2009
Quantity	100,000	200,000
Stock price	$0.21	$0.20
Dividend yield	Nil	Nil
Expected volatility	95%	95%
Risk-free interest rate	2.61%	2.65%
Expected life	60 months	60 months

The stock-based compensation expense amounts to $43,110 for the year ended May 31, 2010.

13. WARRANTS

The following table summarizes the changes in the plan position for the three-month period ended August 31, 2010 and the fiscal year ended May 31, 2010:

	Warrants	Weighted average Exercise price	Value
Balance as at May 31, 2009	24,500,224	$0.31	$ 2,202,857
Warrants expired	(11,294,477)	$0.25	(408,196)
Balance as at May 31, 2010	13,205,747	$0.35	$ 1,794,661
Warrants expired	(13,205,747)	$0.35	(1,794,661)
Balance as at August 31, 2010	-	-	$ -

a) Transactions during the period ended August 31, 2010.

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.

13. WARRANTS (CONT.)

b) Transactions during 2010

On August 10, 2009, 9,625,000 warrants, with an exercise price of $0.24 each, have expired. These warrants were cancelled and the total carrying value, which was $192,500, was transferred to the contributed surplus.

On January 8, 2010, 1,669,477 warrants, with an exercise price of $0.29 each, have expired. These warrants were cancelled and the total carrying value, which was $215,696, was transferred to the contributed surplus.

The following table summarizes the information about the outstanding warrants as at May 31, 2010.

Outstanding warrants		
Number	Weighted average remaining contractual life (months)	Weighted average exercise price
13,205,747	2	$0.35

14. FINANCIAL INSTRUMENTS

Fair value

The fair value of cash, guaranteed investment certificates, 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 August 31, 2010, all assets and liabilities were classified in level 1.

Credit risk management

ZoomMed 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.

14. FINANCIAL INSTRUMENTS (CONT.)

Interest rate risk management

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

Market risk

The future performance of ZoomMed 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, ZoomMed 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. ZoomMed manages this risk by establishing detailed cash forecasts, as well as long-term operating and strategic plans. According to these forecasts, 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 ZoomMed's success. ZoomMed 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 financial, administrative, research and marketing personnel will be required. Although ZoomMed believe that it will be successful in attracting qualified personnel, there can be no assurance to that effect.

15. CAPITAL DISCLOSURES

In regards to capital management, ZoomMed'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. ZoomMed is not subject to any externally imposed capital requirements. ZoomMed has several options regarding its capital needs. See Note 14 for more details.

ZoomMed defines its capital as the sum of its shareholders equity and long-term debt. The shareholders equity ($3,820,466 as at August 31, 2010 and $4,681,892 as at May 31, 2010) includes: share capital, warrants, contributed surplus and deficit. The capital decrease of $861,426 during the period ended August 31, 2010 is the result of a deficit of the period.

16. RELATED PARTY TRANSACTIONS

Period ended August 31, 2010

During the year, ZoomMed paid professional fees totalling $21,630 to one company owned by a shareholder and officer. As at August 31, 2010, accounts payable include an amount of $7,210 relating to these transactions.

These transactions were carried out in the normal course of business and are measured at the exchange value which is the value of the consideration established and agreed to by the related parties.

Period ended August 31, 2009

During the year, ZoomMed paid professional fees totalling $21,000 to one company owned by a shareholder and officer. As at August 31, 2009, accounts payable include an amount of $7,000 relating to these transactions.

These transactions were carried out in the normal course of business and are measured at the exchange value which is the value of the consideration established and agreed to by the related parties.

17. COMPARATIVE FIGURES

Some of the prior year's comparative figures have been reclassified to conform to the current year's presentation.