

# ZOOMMED

EMPOWERING DOCTORS



THE ZRX PRESCRIBER: THE MAGIC OF A FAST ACCESS AND EFFICIENT COMPENDIUM



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis explains ZoomMed Inc.'s consolidated operating results, financial position and cash flows situation as at August 31, 2011. It must be read in conjunction with the unaudited consolidated financial statements and its accompanying notes for the periods ended August 31, 2011 and August 31, 2010. Some operating results, financial position and cash flows situation were also compared with information from the audited consolidated financial statements for fiscal year ended May 31, 2011.

Management prepared this report by taking into account all available information as at October 12, 2011. This Management's Discussion and Analysis report includes ZoomMed Inc. and its subsidiaries ("the Company") financial position.

All financial information discussed in this analysis has been prepared 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, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. Unless otherwise indicated, all amounts are in Canadian dollars.

This Management's Discussion and Analysis report may contain information and statements on the future performance of the Company which are forward-looking in nature. These statements reflect Management's best assessment for assumptions made regarding future events. Thus readers are hereby cautioned that actual results may differ materially.

This Management's Discussion and Analysis and the consolidated financial statements were submitted to the Audit Committee and approved by the Board of Directors.

## BUSINESS DESCRIPTION

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

The Company 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.

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, Quebec, Canada, J4Z 3P2.

## OPERATING RESULTS

### SELECTED INTERIM INFORMATION

OPERATING RESULTS	August 31, 2011	August 31, 2010
Operating revenue	\$ 565,563	\$ 536,880
Interest income	\$ 76	\$ 4,113
Selling expenses	\$ 271,166	\$ 287,346
Administrative expenses	\$ 344,591	\$ 450,309
General operating expenses	\$ 307,025	\$ 285,921
Development Costs	\$ 254,293	\$ 167,667
EBITDA	\$ (611,436)	\$ (650,250)
Financial expenses	\$ 3,622	\$ 3,980
Amortization	\$ 140,773	\$ 160,571
Net loss and comprehensive loss	\$ (755,831)	\$ (814,801)
Basic and diluted earnings per share	\$ (0.006)	\$ (0.007)
Weighted average number of outstanding common shares	130,474,687	110,841,785

Overall, operating revenue for the three-month period ended August 31, 2011, recorded no significant changes compared to the three-month period ended August 31, 2010. Only development costs have increased.

Development costs are classified under two categories. First, we have the ZRx Prescriber's development costs which are recognized under two methods; one portion is capitalized (new functionalities) according to future economic benefits from development costs and the other portion is recorded as expenses. For the three-month period ended August 31, 2011, \$31,795 were capitalized and \$254,293 were recorded as expenses, for a total of \$286,088. For the three-month period ended August 31, 2010, \$98,942 were capitalized and \$167,667 were recorded as expenses, for a total of \$266,609. Globally, development costs increased by 7%. The second category includes the PraxisLab development costs, which are totally capitalized and will be amortized as at the marketing date of the product.

ZoomMed shows an EBITDA of \$(611,436) for the three-month period ending August 31, 2011, compared to \$(650,250) for the three-month period ending August 31, 2010, representing a 6% improvement.

ZoomMed recorded a \$(755,831) net loss for the three-month period ended August 31, 2011 and a \$(814,801) for the three-month period ended August 31, 2010.

ZoomMed recorded a \$(0.006) loss per share for the period ended August 31, 2011 and \$(0.007) for the period ended August 31, 2010.





## FINANCIAL POSITION

BALANCE SHEETS	August 31, 2011	May 31, 2011	June 1, 2010
Cash	\$ 241,162	\$ 1,698,024	\$ 2,632,065
Working capital	\$ (809,286)	\$ (10,355)	\$ 1,474,596
Fixed assets	\$ 497,995	\$ 509,507	\$ 579,144
Intangible assets	\$ 2,998,771	\$ 2,944,885	\$ 1,792,830
Total assets	\$ 4,181,930	\$ 5,395,715	\$ 5,446,458
Deferred revenues	\$ 690,934	\$ 1,043,474	\$ 958,833
Shareholders equity	\$ 2,684,578	\$ 3,440,409	\$ 3,838,811
Share capital	\$ 25,438,120	\$ 25,438,120	\$ 23,001,758

No unusual transaction occurred during the August 31, 2011 quarter. The assets and liabilities variation are a result of the corporation's normal activities.

During the fiscal year ended May 31, 2011, the Company completed a private placement for gross proceeds of \$2,500,600 issuing 16,132,902 units of the Company at a price of \$0.155 per unit.

Fixed assets slightly decreased since June 1, 2010 due to annual amortizations.

Intangible assets increased by \$1,205,941 since June 1, 2010. The increase is mainly attributable to Praxis Santé Inc. acquisition. The excess of the purchase price over the fair value of net identifiable assets totalling \$1,163,802 was recorded as intellectual property, and the PraxisLab development costs are 100% capitalized.

The Company's shareholder's equity decreased by \$398,402 between June 1, 2010 and May 31, 2011 and is essentially attributable to the fiscal year loss combined with common shares issuances. For the three-month period ended August 31, 2011, shareholders equity decreased by \$755,831, which corresponds to the period loss.

## CASH FLOWS AND SHAREHOLDERS' EQUITY

CASH FLOWS SITUATION	August 31, 2011	August 31, 2010
Cash flows used in operating activities	\$ (1,288,841)	\$ (1,024,014)
Cash flows used in financing activities	\$ -	\$ (3,393)
Cash flows used in investment activities	\$ (168,021)	\$ (112,356)
Net change in cash	\$ (1,456,862)	\$ (1,139,763)
Cash end of year	\$ 241,162	\$ 1,492,302

Cash flows used in operating activities amounted to \$(1,288,841) for the 2012 first quarter compared to \$(1,024,014) for the same 2011 quarter. The increase is attributable to non-cash operating working capital items. For the current fiscal year, contracts were mainly renewed during the second quarter, instead of the first quarter in fiscal year 2011, thus causing a negative change in non-cash operating items.

There was no financing activity during the three-month period ended August 31, 2011. Cash flows from financing activities for the three-month period ended August 31, 2010 amount to \$(3,393) and are attributable to share issuance fees.

For the three-month periods ended August 31, 2011 and 2010, the \$(168,021) investment activities for 2011 and \$(112,356) for 2010 are related to fixed assets acquisition and development costs capitalisation.





The net change in cash and cash equivalents from these three types of activities amounted to \$(1,456,862) for the three-month period ending August 31, 2011 and \$(1,139,763) for the three-month period ending August 31, 2010.

## LIQUIDITY

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.

## OFF-BALANCE SHEET ARRANGEMENTS

There was no off balance sheet arrangements or arrangements likely to have an impact on our operating results or our financial situation.

## RELATED PARTY TRANSACTIONS

### a) Key management compensation

Key management are 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 compensation, for the three-month periods ended August 31, 2011 and 2010 was \$150,000.

### b) Related party transactions

During the three-month period ended August 31, 2011, the Company paid professional fees totaling \$21,630 (\$21,630 in 2010) to one company owned by a shareholder and officer. Accounts payable include an amount of \$7,210 for the three-month periods ended August 31, 2011 and 2010.

### 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 three-month periods, ended August 31, 2011 and 2010, the company did not record any depreciation as regards to outstanding related parties' receivables. An assessment is performed as at each financial period, by examining the related party financial statements and the market in which the related party operates.

## OUTSTANDING SHARES, WARRANTS AND STOCK OPTIONS AS AT OCTOBER 12, 2011

Common shares	130,474,687
Warrants to agents and investors	8,711,768
Stock options in accordance with the stock option plan	9,187,500

## 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, revenues, 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 reviews 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.

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 fair 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'.

#### **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.





## 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".

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. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting 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.

## TRANSITION TO IFRS

The Company' condensed consolidated interim financial statements have been prepared in accordance with IFRS as described in notes 2 and 3. This is the Company's first consolidated financial statements prepared under IAS 34 and IFRS 1 "First-time Adoption of IFRS", has been applied. The Company's adoption date is June 1, 2011, and the consolidated financial statements reporting date in August 31, 2011. 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.

### 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, August 31, 2010 and also May 31, 2011 regarding its equity, and as at May 31, 2011 and August 31, 2011 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	August 31, 2010	June 1st, 2010
		\$	\$	\$
Equity – GAAP Canadian		4,231,897	3,820,466	4,681,892
Intangible assets – future income taxes	a)	(682,000)	(682,000)	(682,000)
Amortization	b)	(109,488)	(117,849)	(161,081)
Equity – IFRS		3,440,409	3,020,617	3,838,811





## Reconciliation of statements of comprehensive loss

	For the three-month periods ended August 31, 2010			
	Canadian GAAP	Note	Adjustment	IFRS
	\$		\$	\$
Revenue	540,993		-	540,993
Operating expenses excluding amortization	1,195,223		-	1,195,223
Amortization	203,803	c)	(43,232)	160,571
<b>Net loss and comprehensive loss</b>	<b>(858,033)</b>		<b>43,232</b>	<b>(814,801)</b>

  

	For the year ended May 31, 2011			
	Canadian GAAP	Note	Adjustment	IFRS
	\$		\$	\$
Revenue	2,883,008		-	2,883,008
Operating expenses excluding amortization	5,769,445		-	5,769,445
Amortization	813,369	c)	(51,593)	761,776
<b>Net loss and comprehensive loss</b>	<b>(3,699,806)</b>		<b>51,593</b>	<b>(3,648,213)</b>

**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 and deficit reduction.

**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 \$399,781 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 decrease.

**c) Amortization** – For the three-month period ended August 31, 2010 and the fiscal year ended May 31, 2011, the method change generated respectively, a \$43,232 and \$51,593 amortization reduction

## CONTROLS AND PROCEDURES

The Company's president and chief executive officer and chief financial officer have reviewed the disclosure controls and procedures as required by Multilateral Instrument 52-109 of the Canadian Securities Administrators.

The Company's President and Chief Executive Officer and Chief Financial Officer have concluded that, to the best of their knowledge, there have been no changes to internal controls over financial reporting during the most recent fiscal year that have materially affected or are reasonably likely to materially affect internal controls over financial reporting. In conclusion, after analysis of controls and procedures and to the best of





their knowledge, the Company's President and Chief Executive Officer and the Chief Financial Officer consider that the controls and procedures are adequate.

## **RISKS AND UNCERTAINTIES**

### **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.

### **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.

## **SUBSEQUENT EVENTS**

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.

#### **CONTINUOUS DISCLOSURE AND SUPPLEMENTARY INFORMATION**

The Company files its consolidated financial statements, its management's discussion and analysis, its press releases and other required filing documents on SEDAR's database at [www.sedar.com](http://www.sedar.com).

