

ZOOMED

EMPOWERING DOCTORS



THE ZRx PRESCRIBER REACHES NEW FRONTIERS



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis explains ZoomMed Inc.'s interim consolidated comprehensive income, financial position and cash flows situation for the three-month periods ended August 31, 2014 and August 31, 2013. It must be read in conjunction with the audited consolidated financial statements and its accompanying notes as at August 31, 2014 and August 31, 2013. Some operating results, financial position and cash flows situation were also compared with information from fiscal year ended May 31, 2014.

Management prepared this report by taking into account all available information as at October 29, 2014. 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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 audited consolidated financial statements were submitted to the Audit Committee and approved by the Board of Directors.

BUSINESS DESCRIPTION

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 a broad range of computer applications designed for healthcare professionals.

The Company has developed the "ZRx Prescriber", a technological innovative Web application that enables physicians to quickly generate prescriptions on their computer, tablet or smartphone. Since it is a stand-alone product, it can easily be integrated to any Electronic Medical Record application (EMR).

ZoomMed's communication network is a clinical information exchange platform between physicians and the various other stakeholders of the healthcare sector, such as pharmacists, specialists, pharmaceutical corporations, private insurers, laboratories, specialized clinics and others. This network includes among others, the "ZRx Access" platform that allows bidirectional exchange of prescription information between physicians and pharmacists, as well as "ZRx benefits" for the transmission of certain insurance plans information from insurance companies, in order to inform physicians about their patient's type of coverage when they write the prescription.

The Company also offers "PraxisLab" new pharmacy management software that enhances all aspects of the prescription filling process and the complete pharmacists patient file management. PraxisLab uses state-of-the-art protocols and up-to-date software standards.

The Company holds 50% of the voting and participating shares in the American joint venture EvEMR Inc., which commercializes, throughout North America, an Electronic Medical Record (EMR) designed for all behavioural health providers. In addition, the joint venture has acquired an exclusive license for the distribution rights of the ZRx Prescriber in the United States. The Company holds 50% of the voting and participating shares in EvEMR International joint venture, which was established for the distribution of these products worldwide.

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.





FINANCIAL POSITION

	August 31, 2014	May 31, 2014
Cash and cash equivalents	\$ 4,014	\$ 159,921
Fixed assets	\$ 21,025	\$ 24,365
Intangible assets	\$ 816,242	\$ 894,415
Total assets	\$ 1,277,076	\$ 1,766,139
Deferred revenues	\$ 493,629	\$ 734,864
Non-convertible Debenture	\$ 1,796,447	\$ 1,783,457
Short term	\$ 69,336	\$ 377,856
Shareholders' equity	\$ (3,205,620)	\$ (2,407,542)
Share capital	\$ 25,509,437	\$ 25,509,437

For the three-month period ended August 31, 2014 and fiscal year ended May 31, 2014, net change in cash and cash equivalents is mainly related to operating activities and development activities.

Fixed assets and intangible assets remain relatively constant since May 31, 2014 resulting from the amortization expense.

Deferred revenue amounted to \$493,629 as at August 31, 2014 and \$734,864 as at May 31, 2014. The majority of these contracts is for a twelve-month period and has to be recognized on a straight-line basis over the duration of the agreements, therefore generating deferred revenue.

The Company's shareholders equity totaled \$(3,205,620) for the three-month period ended August 31, 2014 and \$(2,407,542) for the fiscal year ended May 31, 2014. The decrease recorded is mainly due to the loss for the three-month period ended August 31, 2014.

NET INCOME AND COMPREHENSIVE INCOME

SELECTED INTERIM INFORMATION	August 31, 2014	August 31, 2013 (Restated) ⁽¹⁾
Operating revenue	\$ 344,644	\$ 535,761
Selling expenses	\$ 224,203	\$ 201,306
Administrative expenses	\$ 306,230	\$ 309,687
General operating expenses	\$ 152,068	\$ 200,547
Development costs	\$ 353,377	\$ 521,451
Financial expenses	\$ 106,844	\$ 101,726
Loss before proportionate share of the investee's net results	\$ (798,078)	\$ (798,956)
Proportionate share of the investee's net results	\$ -	\$ (268,912)
Net loss and comprehensive income	\$ (798,078)	\$ (1,067,868)
Basic and diluted net earnings per share	\$ (0.006)	\$ (0.008)
Weighted average number of outstanding common shares	135,591,268	130,474,687

⁽¹⁾ For more details see section Corrections of prior errors

For the three-month period ended August 31, 2014, operating revenue recorded a decrease mainly related to renewal of contract moved to September 2014 instead of occurring in August 2014.

All operating expenses remain relatively constant over the two quarters ended August 31, 2014 and 2013. Only development costs have varied. As at May 31, 2014, impairment of development costs and intellectual properties for PraxisLab (Pharmacy Management software) have a direct effect on amortization, reducing the amortization charge.

For the three-month period ended August 31, 2014, the proportionate share of the joint venture is \$Nil and as at May 31, 2014, the proportionate share of the joint venture represent net losses of \$(268,912). As at May 31, 2014, the Company recorded assets impairment for the joint venture which commercializes an Electronic Medical Record (EMR) designed for all behavioural health providers (see section Impairment of assets).





The Company recorded a net operating loss before proportionate share of the joint venture net results of \$798,078 for the three-month period ended August 31, 2014 and \$798,956 for the three-month period ended August 31, 2013. The Company recorded a \$0.006 loss per share for the three-month period ended August 31, 2014 and \$0.008 for the three-month period ended August 31, 2013.

CASH FLOWS AND SHAREHOLDERS' EQUITY

CASH FLOWS SITUATION	August 31, 2014	August 31, 2013 (Restated) ⁽¹⁾
Cash flows used in operating activities	\$ 184,537	\$ (61,117)
Cash flows from financing activities	\$ (308,520)	\$ -
Cash flows used in investment activities	\$ (31,924)	\$ (45,199)
Net change in cash and cash equivalents	\$ (155,907)	\$ (106,316)
Cash and cash equivalents, end of year	\$ 4,014	\$ 259,508

(1) For more details see section Corrections of prior errors

Cash flows used for operating activities amounted to \$184,537 for the three-month period ended August 31, 2014 and (\$61,117) for the three-month period ended August 31, 2013.

For the three-month period ended August 31, 2014, cash flows used for financing activities amounted to \$ (308,520) and are related to the reimbursement of research and development tax credits financed by "Investissement Québec" for fiscal year 2013. For the three-month period ended August 31, 2013 there was no financing activities.

For the three-month periods ended August 31, 2014 and August 31, 2013, cash flows from investing activities are related to the acquisition of fixed assets and the capitalization of development cost.

The net change in cash and cash equivalents from these three types of activities amounted to (\$155,907) for the three-month period ended August 31, 2014 and (\$106,316) for the three-month period ended August 31, 2013.

LIQUIDITY

In order to meet additional capital requirements, the Company may consider collaborative arrangements and additional public or private financing to fund part or all of particular product development programs. 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 flows 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 the ZRx Prescriber, PraxisLab and the ZoomMed's communication 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.

OUTSTANDING SHARES, WARRANTS AND STOCK OPTIONS AS AT OCTOBER 29, 2014

Common shares	135,591,268
Warrants to agents and investors	-
Stock options in accordance with the stock option plan	6,997,500





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.

CORRECTIONS OF PRIOR PERIOD ERRORS (Note 4 of Unaudited Consolidated Financial Report)

The Company has restated the 2013 financial statements as follows:

a) Adjustment to the interest in joint ventures

Proportionate share of unrealized gain on the sale of a license

The company found an error in the original determination of the profit to be recognized immediately upon the sale of the exclusive license ZRx Prescriber for the American market to the joint venture EvEMR Inc. As required by IAS 28.31 Investments in Associates and Joint Ventures, the entire portion of the gain or loss on the contributed non-monetary assets resulting from monetary assets received should be recorded. The unrealized gain should have been \$915,089 instead of \$1,600,728, as presented in the 2013 financial statements previously published.

Proportionate share of the joint venture's net results

The proportionate share of the joint venture's net results has been restated downward for the fiscal year ended May 31, 2013. The decrease in the proportionate share of unrealized gain on the sale of a license (\$685,639) and the decrease in the amortization of unrealized gain on the sale of a license (\$19,046) result in a decrease of the proportionate share of the joint venture's net results totaling \$57,137. As a result, the proportionate share of the joint venture's net results of \$268,912 is recorded in the interim consolidated financial statements for the three-month period ended August 31, 2013.

The effect of the restatements regarding the interim consolidated statements of comprehensive income, for the three-month period ended August 31, 2013, is as follows:

	Previously established August 31, 2013	Adjustments	Restated August 31, 2013
	\$	\$	\$
Proportionate share of net results of the joint ventures	211,775	57,137	268,912

The effect of the restatements regarding the interim consolidated statements of cash flow for the three-month period ended August 31, 2013, is as follows:

	Previously established August 31, 2013	Adjustments	Restated August 31, 2013
	\$	\$	\$
Proportionate share of net results of the joint ventures	(211,775)	(57,137)	(268,912)

b) Adjustments of intangible assets

Development costs of Intangible asset; PraxisLab software (pharmacy management software)

An error occurred during the annual impairment testing of PraxisLab software as at May 31, 2013. When running the test, a global assessment of intangible assets was performed, whereas two separate cash generating units should have been identified, which are the ZRx Prescriber and PraxisLab software. Cash flow generated from the sales of these two products are not linked, because they are different in nature and are not aimed at the same clientele (the first for physicians and pharmacies for the second). It was therefore incorrect to consider them as a whole and only perform an overall impairment test as at May 31, 2013.





Depreciation

The depreciation of \$ 617,660 resulting from PraxisLab software impairment testing, as at May 31, 2013, involves a restatement in the financial statements for the three-month period ended August 31, 2013. Development costs were entirely recognized as expenses and the amortization charge was adjusted accordingly.

The effect of the restatements regarding the interim consolidated statements of comprehensive income, for the three-month period ended August 31, 2013, is as follows:

	Previously established August 31, 2013	Adjustments	Restated August 31, 2013
	\$	\$	\$
Development cost	504,312	17,139	521,451

The effect of the restatements regarding the interim consolidated statements of cash flow for the three-month period ended August 31, 2013, is as follows:

	Previously established August 31, 2013	Adjustments	Restated August 31, 2013
	\$	\$	\$
Amortization	221,159	(56,327)	164,832
Acquisition of intangible assets	(114,787)	73,465	(41,322)

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED (Note 5 of Unaudited Consolidated Financial Report)

IFRS 9 - Financial Instruments

In October 2010, the IASB issued IFRS 9 "Financial Instruments" which is the completion of the first phase of a three-part project to replace IAS 39 "Financial Instruments: Recognition and Measurement", with a new standard. According to recent updates to IFRS 9, an entity that chooses to measure a liability at fair value will present the portion of changes in fair value of the liability that is attributable to changes in credit risk of that entity in other comprehensive income rather than through net income. The third part covering the impairment of financial assets is still being developed.

In November 2013, the IASB issued the section on hedge accounting, which introduces a new model for hedge accounting.

Also, to determine whether a financial asset is measured at amortized cost or fair value, IFRS 9 uses a single approach that replaces the multiple rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the characteristics of the contractual cash flows of financial assets.

This standard was originally to be applied to financial statements for annual periods beginning on or after January 1st, 2015. However, in November 2013, the IASB issued a revised draft of IFRS 9 edition, and the date of adoption of this standard was withdrawn. For now, no effective date of adoption of IFRS 9 was mentioned as long as all the projects in this standard will not be completed. The Company intends to adopt the new standard from the date of entry into force. The Company will study the impact of this standard on the consolidated financial statements when it is officially published.





CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Note 6 of Unaudited Consolidated Financial Report)

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 useful life 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' 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.





Definitions of cash generating units

The determination of cash generating units requires judgment in determining the lowest level for which there are largely independent cash inflows generated by the asset group level. This determination could have an impact on the results of impairment testing and, as appropriate, on the impairment charge recorded in the consolidated statements of net income and comprehensive income.

Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. The current situation indicates the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern. Further information regarding going concern is outlined in note 2. (See Note 26 – Subsequent event after closing date).

IMPAIRMENT OF ASSETS (Note 10 of Unaudited Consolidated Financial Report)

Valuation method

The Company uses the present value of estimated future cash flows method to determine the value in use of each CGU. Since the last impairment test, the Company has not made any change in the valuation method used to assess impairment of intangible assets.

a) Intangible assets

Main assumption - Discount rate

The estimated future cash flows were discounted at a rate of 19.5% for the two cash generating units, which is the incremental borrowing rate of the Company and the most relevant, since it is an asset. It reflects the current market assessment of the time value of money and the specific risks regarding the assets.

Impairment test

PraxisLab

In November 2013, a significant event in relation with the intangible asset PraxisLab occurred. An undivided co-ownership of intellectual property was sold to a Quebec pharmacy chain.

Since this sale was not part of the estimated future cash flows of this asset, management believes that it does not affect the estimated future cash flows of PraxisLab software and, therefore, recoverable value is greater than the book value at that date. There was therefore no need to depreciate the PraxisLab in the second quarter.

As at May 31, 2014, the Company held to revise its estimated future cash flows and perform an impairment test of PraxisLab as specified in its accounting methods. The management of the company has found that new circumstances led them to reconsider the assumptions leading to the evaluation of the value in use of PraxisLab significantly. As of year-end, the Company had a letter of intent from Telus Health, issued May 6, 2014, regarding the acquisition of its Canadian market assets. Given the seriousness of the ongoing discussions, management has assumed that it would be realized and considered it in its estimates as at May 31, 2014.

Given that the cash-generating unit of PraxisLab laboratory management software is primarily designed for the Canadian market, the company has assessed that the best estimate of cash flows was \$Nil and, therefore, its value in use was nil. This value being less than the carrying value of \$1,106,657, at that date, an asset impairment of this amount was recognized as a result of the impairment test. Specifically, it is an asset impairment of \$785,567 for intellectual property and \$321,090 for capitalized development costs, as reflected in the following table:



	Intellectual properties	Development cost	Total
	\$	\$	\$
Cost			
As at June 1 st , 2013	1,163,802	1,099,297	2,263,099
Acquisitions	-	-	-
As at May 31, 2014	1,163,802	1,099,297	2,263,099
Accumulated Amortization and Depreciation			
As at June 1 st , 2013	261,856	617,660	879,515
Amortization	116,380	160,547	276,926
Depreciation	785,567	321,090	1,106,657
As at May 31, 2014	1,163,802	1,099,297	2,263,099
Net book value as at May 31, 2014	-	-	-

ZRx Prescriber

As regards to the ZRx Prescriber cash-generating unit, its estimated recoverable amount according to the value in use is greater than its carrying value, as at May 31, 2014. The assumptions used in the valuation include, among others, short-term sales on the Canadian market, completing short-term sale to Telus Health and sales on the international market. The completion of the impairment test leads to the conclusion that the carrying value exceeds the recoverable amount and therefore no impairment was taken for the ZRx Prescriber.

b) Impairment of assets of the joint venture EvEMR Inc.

The ZRx Prescriber marketing right in the United States is the most important intangible asset of the joint venture EvEMR Inc. This is a cash-generating unit and the recoverability test carried out, as at May 31, 2014, takes into account projections specifically bound thereto. As at May 31, 2014, the Company estimates that the best forecast of estimated future cash flows for EvEMR inc. is nil and, therefore, its value is nil. No discount rate has to be determined, as the estimated future cash flows are nil. No marketing plan is contemplated in the foreseeable future. The recoverable amount being less than the carrying value of \$3,872,144 at that date, an impairment of the entire amount (\$3,872,144) was recognized in the statement of net income and comprehensive income subsequent to the completion of this impairment test, as at May 31, 2014. The joint venture EvEMR inc. therefore proceeded to a complete depreciation of its intangible assets:

	Licence	Development cost	Total
	\$	\$	\$
Cost			
As at June 1 st , 2013	3,594,103	1,436,283	5,030,386
Acquisitions	-	-	-
As at May 31, 2014	3,594,103	1,436,283	5,030,386
Accumulated Amortization and Depreciation			
As at June 1 st , 2013	100,483	12,320	112,803
Amortization	933,522	111,917	1,045,439
Depreciation	2,560,098	1,312,046	3,872,144
As at May 31, 2014	3,594,103	1,436,283	5,030,386
Net book value as at May 31, 2014	-	-	-





c) Impairment of the interest in the joint venture EvEMR International

The joint venture EvEMR International was established to distribute products for behavioral health care professionals on the international market. More than a year after its establishment, no commercial activity has been generated. As at May 31, 2014, no concrete development plan was prepared and the potential to generate future cash flows is not sufficiently predictable to consider that the joint venture is an asset to the Company. The joint venture has no intention, in the foreseeable future, to develop a marketing strategy.

As at May 31, 2014, the Company assessed that the best forecast of estimated future cash flows for EvEMR International is nil and, therefore, its utility value was nil. This value being less than the carrying value of \$39,510 at that date, an impairment of the entire amount (\$39,510) was recognized in the statement of net income and comprehensive income subsequent to the completion of this impairment test, as at May 31, 2014. The impact on the value of the interest in joint venture is as follows:

	Total
	\$
As at June 1 st 2013	-
Interest in joint venture	39,510
Depreciation	(39,510)
As at May 31, 2014	-

INTEREST IN JOINT VENTURES (Note 11 of Unaudited Consolidated Financial Report)

a) EvEMR Inc.

The American joint venture EvEMR Inc., based in Washington D.C., markets throughout North America an Electronic Medical Record (EMR) designed for all behavioural health providers.

On April 22, 2013, the Company signed with EvEMR Inc., an Exclusive License Agreement regarding the rights to distribute, license and sub-license the ZRx Prescriber in the United States. In consideration of the grant of the license, EvEMR Inc. has agreed to pay to the Company; a cash amount of U.S. \$1,500,000, issued to the Company two million (2,000,000) preferred shares for an amount of U.S. \$2,000,000 and two million (2,000,000) participating, non-voting shares in the capital stock of EvEMR Inc., representing an additional 10% of the total economic interest in EvEMR Inc.

The Company holds 50% of the participating shares and 50% of the voting shares in the joint venture EvEMR Inc. The joint venture fiscal year is December 31.

The aggregate amount of current asset, non-current assets, current liabilities, non-current liabilities, products and expenses related to the participation in EvEMR Inc. are as follows:

	August 31, 2014	May 31, 2014
	\$	\$
Current assets	25,654	25,654
Non-current assets	11,097	11,097
Total assets	36,751	36,751
Current liabilities	66,874	66,874
Non-current liabilities	803,290	803,290
Total liabilities	870,164	870,164





Net assets	(833,413)	(833,413)
Proportionate share of unrealized gain on the sale of a license	(915,089)	(915,089)
Amortization of unrealized gain on the sale of a license	254,191	254,191
Dividends	-	(33,418)
Proportionate share of net losses not recognised ⁽¹⁾	1,561,147	1,527,729
Interest in joint venture	-	-
Total revenue	-	42,651
Total expenses	-	2,818,520
Net Results	-	(2,775,869)
Amortization of unrealized gain on the sale of a license	-	228,772
Proportionate share of net losses not recognised ⁽¹⁾	-	1,527,729
Proportionate share of net result of the joint venture	-	(1,019,368)

⁽¹⁾ The 50% interest in EvEMR Inc. is nil as at August 31, 2014 and as at May 31, 2014. The Company did not recognize additional proportionate share of net losses beyond its participation, to the extent that it has no obligation to cover these losses.

b) EvEMR International

Since October 23, 2012, the Company holds 50% of the equity shares and 50% of the voting shares in EvEMR International joint venture, which was established to distribute products designed for all behavioral health providers throughout the world. The joint venture fiscal year is December 31.

The aggregate amount of current assets, non-current assets, current liabilities, non-current liabilities, products and expenses related to the participation in EvEMR are as follows:

	August 31, 2014	May 31, 2014
	\$	\$
Current assets	65,301	65,301
Non-current assets	341,725	341,725
Total assets	407,026	407,026
Current liabilities	6,301	6,301
Non-current liabilities	361,215	361,215
Total Liabilities	367,516	367,516
Net assets	39,510	39,510
Depreciation ⁽¹⁾	(39,510)	(39,510)
Interest in joint venture	-	-
Total revenue	-	53,768
Total expenses	-	14,258
Net results	-	39,510
Proportionate share of net result of the joint venture	-	39,510

⁽¹⁾ For the fiscal year ended May 31, 2014, the Company performed an annual impairment test. The result of this test was not conclusive and an impairment for the entire investment was recognized.





NON-CONVERTIBLE DEBENTURE (Note 13 of Unaudited Consolidated Financial Report)

On October 30, 2013, the Company issued a secured debenture with a nominal value of U.S. \$1,664,319 and a premium to the lender of 4,607,795 common shares of the share capital of the company. The debenture bears interest at a nominal rate of 17% per year. It is repayable in monthly capital installments of US \$60,000 plus interest, from January 31, 2014 and matures in December 2014. The debenture is redeemable prior to maturity, in whole or in part, by the Company after a two days' notice to the lender. The debenture is secured by a movable hypothec charging the universality of the Corporation's present and after-acquired movable property, corporeal and incorporeal.

The net proceeds from the issuance of the non-convertible debenture has been separated into a liability component and an equity component representing the residual amount attributable to the premium to the lender, as shown in the following table:

Proceeds from issuance	\$ 1,712,085
Fair value of the liability component, at the date of issue, for a similar instrument that does not have a premium to the lender as an equity component	(1,666,207)
Fair value of the equity component	\$ 45,878

The liability component of \$ 1,666,207 is measured at amortized cost, using the effective interest method, of 19.5%. The equity component of \$ 45,878 is recorded in the capital component as equity component of non-convertible debenture and led to the issuance of 4,607,795 common shares, as at January 16, 2014.

The difference between the carrying value of the liability component, at the date of issuance, of \$1,666,207 and the amount reported in the consolidated statement of financial position, as at August 31, 2014, of \$1,796,447, represents the effective interest rate less interest due, plus the exchange rate difference once the debenture is converted at that date.

The interest charge on this loan is calculated by applying an effective interest rate of 19.5%. The liability component is measured at amortized cost.

As at August 31, 2014, the Company was in default to pay principal and interests due. However, the lender has confirmed its tolerance for these exceptions and does not intend to exercise its security rights.

On September 3, 2014, the Company fully repaid the secured debenture and got a complete, full and final release from the lender. (See Note 24, "Subsequent events after closing date").

SHORT TERM DEBT (Note 15 of Unaudited Consolidated Financial Report)

On October 31, 2013, the Company entered into a research and development tax credits financing offer with Investissement Québec.

As at August 31, 2014, financing of research and development tax credits are amounted to \$69,336. As at May 31, 2014, the funding amounted to \$377,856 is allocated as follows: an amount of \$308,520 for fiscal year 2013 and \$69,336 for fiscal year ending May 31, 2014.

The loan bears interest at prime rate plus 3%, for the disbursed portions, and is secured by a first-ranking movable hypothec in the amount of \$395,190 and an additional hypothec of \$79,038 for a total of \$474,338.

The amount of \$308,520 was repaid in full, on receipt of the tax credit in June 2014, amounted to \$417,723 for the fiscal year ended May 31, 2013 and the amount of \$69,336 is repayable in full on receipt of the tax credit, which is estimated at \$230,000 for the fiscal year ended May 31, 2014.





STOCK OPTION PLAN (Note 18 of Unaudited Consolidated Financial Report)

The shareholders of the Company adopted a resolution approving the “rolling” stock option plan of 10% at the annual and special meeting of shareholders held November 29, 2013. 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.

Transaction during the three-month period ended August 31, 2014

No transaction occurred during the three-month periods ended August 31, 2014

Transaction during 2014

No transactions occurred during the fiscal year ended May 31, 2014

RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Note 21 of Unaudited Consolidated Financial Report)

The Company, through its financial instruments, is exposed to various risks without being exposed to risk concentrations. The Company is primarily exposed to credit risk, interest rate risk, market risk, liquidity risk and key personnel risk.

a) Risks associated with financial instruments

Credit risk management

Credit risk is the risk of financial loss for the Company, if a debtor does not meet its obligation. This risk arises mainly from the credit the Company grants its customers in the normal course of its activities.

Credit evaluations are performed continuously and the consolidated statements of financial position reflect a provision for doubtful debts. No qualitative assessment has been made, management has assessed the credit risk was not significant.

Currency risk management

The currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rate. In the normal course of its operations, the Company is exposed to the risk of variations in the exchange rate of the U.S. dollar.

As at August 31, 2014, the Company has the following balances in converted U.S. dollars: cash: \$36 and debenture: \$1,796,447. As at May 31, 2014, the Company has the following balances in converted U.S. dollars: cash: \$88 and debenture: \$1,783,457.

The following table details the sensitivity of the Company to an increase and a decrease of 10% of the foreign currency against the Canadian dollar. The analysis considers only monetary items denominated in the foreign currency and adjusts their conversion to May 31 of each year.

	Effects of variation in the exchange rate of the U.S. dollar against the Canadian dollar			
	10 % increase		10% decrease	
	August 31, 2014	May 31, 2014	August 31, 2014	May 31, 2014
	\$	\$	\$	\$
Debenture \$1,796,447 (\$1,783,457 as at May 31, 2014)	1,976,092	1,961,803	1,616,802	1,605,111





Interest rate risk management

The interest rate risk exists in times of fluctuating rates and when differences are expected in the cash flow matching of assets and liabilities.

The Company has no debt bearing interest at variable rates. In addition, it invests part of its liquidity in guaranteed interest rate financial instruments. These financial instruments represent a minimal risk for the Company.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly regarding its creditors, its short-term debt, its non-convertible debenture and its convertible debenture.

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 the ZRx Prescriber, PraxisLab and ZoomMed's communication network.

b) Other risks

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.

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 meet its 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 believes that it will be successful in attracting qualified personnel, there can be no assurance to that effect.

RELATED PARTY TRANSACTIONS (Note 23 of Unaudited Consolidated Financial Report)

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 three-month period ended August 31, 2014 totalized \$154,808 (\$134,615 for the three-month period ended August 31, 2013).

b) Related party transactions

A director of the Company is a partner in a law firm that acted as legal advisor to the Company. During the three-month period ended August 31, 2014, an amount of \$140,851 (\$4,264 for the three-month period ended August 31, 2013) was paid to the law firm.

Accounts payable and accrued liabilities include an amount of \$25,535 (\$15,493 at May 31, 2014) payable to the directors, without repayment terms or interest.



During the fiscal year ended May 31, 2014, the Company received, from a joint venture, a dividend totaling \$33,418.

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, 2014 and 2013, 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.

These transactions were made on equivalent terms to those prevailing in the case of transactions subject to normal market conditions.

SUBSEQUENT EVENT AFTER CLOSING DATE (Note 24 of Unaudited Consolidated Financial Report)

Sale of certain assets

On September 2, 2014, the Company entered into an agreement to sell an interest in the underlying technology of its ZRx Prescriber for the Canadian market, to share the intellectual property of the ZRx Prescriber for the rest of the world, except the United States and the United Kingdom, along with the sale of some related activities in Canada, to TELUS Health for an amount up to \$ 6,800,000, which is a primary sector of the Company in terms of geographical area (Note 25).

The \$6,800,000 purchase price terms and conditions include a cash payment of \$4,756,371 at closing, \$493,629 in adjustments for deferred revenue, \$250,000 payable on February 28, 2015 and \$1.3 million in contingent payment subject to certain conditions.

The company used the proceeds generated by this transaction as follows:

Repayment of debenture

Dated September 3, 2014, the Company repaid the existing non-convertible debenture in the amount of capital and interest totaling \$2,134,866. The company got a complete, full and final release from the lender.

Working capital

The balance has been used as working capital in order to invest in the marketing and deployment of the ZRx Prescriber technology worldwide, giving priority at this time to the US market.

SEGMENT REPORTING (Note 25 of Unaudited Consolidated Financial Report)

The Company is organized into two primary segments which are geographic areas; Canada and the United- States.

Information about major customers

Revenue from ordinary activities resulting from transactions with three clients exceeded more than 10% of the total revenue. These clients respectively accounted for \$37,500, \$84,250 and \$90,885 of the Company's total revenue for the three-month period ended August 31, 2014. For the three-month period ended August 31, 2013 revenue from ordinary activities resulting from transactions with two clients exceeded more than 10% of the total revenue. These clients respectively accounted for \$181,354 and \$223,033 of the Company's total revenue.

For the three-months ended August 31, 2014 and 2013 revenue from operating activities are from Canadian geographical area.

Pursuant to the sale of certain assets, as at September 2, 2014, revenues and cash flows from this geographical area will not be recurrent (Note 24).