

# 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 nine-month periods ended February 28, 2015 and 2014. It must be read in conjunction with the audited consolidated financial statements and its accompanying notes as at February 28, 2015 and 2014. 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 April 17, 2015. 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.

On September 2, 2014, the Company sold the technology of its ZRx Prescriber in the Canadian market to Telus Health Solutions. The company will continue marketing this product for international markets, specifically the United States and the United Kingdom.

In 2011, the ZRx Prescriber was certified by "Surescript", the largest national health network in the United States. Thus the ZRx Prescriber is already connected to more than 60,000 pharmacies and to the majority of insurers and drug payers in the market.

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. 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 Avenue, Suite 121, Brossard, Québec, Canada, J4Z 3P2.

## FINANCIAL POSITION

|                           | February 28, 2015 | May 31, 2014   |
|---------------------------|-------------------|----------------|
| Cash and cash equivalents | \$ 810,827        | \$ 159,921     |
| Fixed assets              | \$ 8,773          | \$ 24,365      |
| Intangible assets         | \$ 593,234        | \$ 894,415     |
| Total assets              | \$ 1,769,648      | \$ 1,766,139   |
| Deferred revenues         | \$ -              | \$ 734,864     |
| Non-convertible Debenture | \$ -              | \$ 1,783,457   |
| Short term                | \$ -              | \$ 377,856     |
| Shareholders' equity      | \$ 1,340,401      | \$ (2,407,542) |
| Share capital             | \$ 25,509,437     | \$ 25,509,437  |

The financial position of the Company has changed considerably since May 31, 2014. On September 2, 2014, the Company entered into an agreement with Telus Health Solutions to sell an interest in the underlying technology and certain related activities of its ZRx Prescriber in Canada for an amount of up to \$6,800,000. In addition, the Company and Telus Health Solutions will share the intellectual property of the ZRx Prescriber for the rest of the world except for the United States and the United Kingdom which are strictly reserved for the Company.

The terms and conditions of this agreement are \$6,800,000 and include an initial payment in cash of \$4,756,371, an adjustment of \$493,629 for deferred revenue from pharmaceutical companies, a fixed amount of \$250,000 payable on February 28, 2015, and \$1,300,000 in contingent payments subject to certain conditions. As at February 28, 2015, 57% of these conditions had been met and an amount of \$745,402 was recorded as revenue.

The Company used the funds generated by this transaction to repay the existing non-convertible debenture for a principal amount and interest totaling \$2,134,866. The company has obtained full, final and definitive release from the creditor and the balance was used for working capital and to invest in the commercialization and deployment of the ZRx Prescriber's technology worldwide, giving priority to the US market.

The decrease in tangible assets is due to the transfer of deployment equipment at the time of the transaction of 2 September 2014.

Intangible assets amounted to \$593,234 as at February 28, 2015 and \$894,415 as at May 31, 2014. The decrease is attributable to the depreciation expense.

As at May 31, 2014, the deferred revenues were related to activities from the Canadian market for the ZRx Prescriber and have been fully reimbursed to Telus Health Solutions upon the closing of the transaction on September 2, 2014.

As of February 28, 2015, the Company has no short-term and long-term debt, the debenture was repaid from the transaction of September 2<sup>nd</sup>, and short-term loan was repaid on receipt of tax credits for research and development.

The Company's shareholders equity totaled \$1,340,401 for the nine-month period ended February 28, 2015 and \$(2,407,542) for the fiscal year ended May 31, 2014. The increase of \$3,747,943 is explained by the September 2, 2014 transaction's which allowed to recognize income of \$5,681,303 and a net profit of \$3,795,437.



**NET INCOME AND COMPREHENSIVE INCOME  
SELECTED INTERIM INFORMATION**

| <b>THREE-MONTH PERIOD</b>   | <b>February 28, 2015</b> | <b>February 28, 2014<br/>(Restated <sup>(1)</sup>)</b> |
|---|--------------------------|--|
| Operating revenue   | \$ 578,021               | \$ 295,815   |
| Selling expenses  | \$ 82,720                | \$ 124,427   |
| Administrative expenses   | \$ 417,118               | \$ 252,721   |
| General operating expenses  | \$ 54,911                | \$ 136,302   |
| Development costs   | \$ 119,710               | \$ 275,188   |
| Financial expenses  | \$ 4,255                 | \$ 125,315   |
| Benefit (loss) before proportionate share of the investee's net results | \$ (100,693)             | \$ (618,138)   |
| Proportionate share of the investee's net results                       | \$ -                     | \$ (146,016)   |
| Net result and comprehensive income                                     | \$ (100,693)             | \$ (764,154)   |
| Basic and diluted net earnings per share                                | \$ (0.001)               | \$ (0.006)   |
| Weighted average number of outstanding common shares                    | 135,591,268              | 133,184,975  |

<sup>(1)</sup> For more details see section Corrections of prior errors

| <b>NINE-MONTH PERIOD</b>  | <b>February 28, 2015</b> | <b>February 28, 2014<br/>(Restated <sup>(1)</sup>)</b> |
|---|--------------------------|--|
| Operating revenue   | \$ 6,349,484             | \$ 1,888,812   |
| Selling expenses  | \$ 421,656               | \$ 541,805   |
| Administrative expenses   | \$ 1,031,473             | \$ 913,192   |
| General operating expenses  | \$ 293,486               | \$ 474,970   |
| Development costs   | \$ 716,505               | \$ 1,323,359   |
| Financial expenses  | \$ 191,621               | \$ 468,695   |
| Benefit (loss) before proportionate share of the investee's net results | \$ 3,694,743             | \$ (1,833,209)   |
| Proportionate share of the investee's net results                       | \$ -                     | \$ (587,268)   |
| Net result and comprehensive income                                     | \$ 3,694,743             | \$ (2,420,477)   |
| Basic and diluted net earnings per share                                | \$ 0.027                 | \$ (0.018)   |
| Weighted average number of outstanding common shares                    | 135,591,268              | 131,398,008  |

<sup>(1)</sup> For more details see section Corrections of prior errors

For the nine-month period ended February 28, 2015 revenue amounted to \$6,349,484 compared to \$1,888,812 for the same period in 2014. The increase is mainly explained by the transaction occurring on September 2, 2014. For the nine-month period ended February 28, 2014, revenues are consisted of contracts related to the e-pic communication network for an amount of \$1,388,812 and a gain on the sale of an undivided co-ownership of the intellectual property, of the pharmacy management software amounting to \$500,000.

The decrease in selling, operation and development cost are due to by the transfer of employees to Telus Health Solutions as at September 2, 2014.

Administrative expenses remained stable over the nine months ended February 28, 2015 and 2014.

Financial expenses amounted to \$191,621 for the nine-month period ended February 28, 2015 compare to \$468,695 for the nine-month period ended February 28, 2014. The decrease in financial expenses is mainly due to the repayment of the non-convertible debenture on September 3, 2014.

For the nine-month period ended February 28, 2015, the proportionate share of the joint venture is \$Nil and as at February 28, 2014, the proportionate share of the joint venture represent net losses of (\$587,268). 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).

For the three-month period ended February 28, 2015, the Company recorded a loss of \$100,693. Taking into account the amortization expense of \$113,318 and the stock-based compensation of \$53,200, a gain of \$65,825 was recorded.



For the nine-month period ended February 28, 2015, net and comprehensive income of the company shows a profit of \$3,694,743 compared to a loss of \$2,420,477 for the same period in 2014.

The Company recorded a \$0.027 net profit per share for the nine-month period ended February 28, 2015 compared to a loss per share of \$0.018 for the nine-month period ended February 28, 2014.

**CASH FLOWS AND SHAREHOLDERS' EQUITY  
SELECTED INTERIM INFORMATION**

| <b>THREE-MONTH PERIOD</b>                | <b>February 28, 2015</b> | <b>February 28, 2014<br/>(Restated <sup>(1)</sup>)</b> |
|--|--------------------------|--|
| Cash flows used in operating activities  | \$ (183,422)             | \$ 177,024   |
| Cash flows from financing activities     | \$ (69,336)              | \$ 125,682   |
| Cash flows used in investment activities | \$ 746,289               | \$ (70,394)  |
| Net change in cash and cash equivalents  | \$ 493,531               | \$ 232,312   |
| Cash and cash equivalents, end of year   | \$ 810,827               | \$ 371,631   |

<sup>(1)</sup> For more details see section Corrections of prior errors

| <b>NINE-MONTH PERIOD</b>                 | <b>February 28, 2015</b> | <b>February 28, 2014<br/>(Restated <sup>(1)</sup>)</b> |
|--|--------------------------|--|
| Cash flows used in operating activities  | \$ (2,836,986)           | \$ (892,857)   |
| Cash flows from financing activities     | \$ (2,212,029)           | \$ 589,941   |
| Cash flows used in investment activities | \$ 5,699,921             | \$ 308,723   |
| Net change in cash and cash equivalents  | \$ 650,906               | \$ 5,807   |
| Cash and cash equivalents, end of year   | \$ 810,827               | \$ 371,631   |

<sup>(1)</sup> For more details see section Corrections of prior errors

Given the type of transaction carried out September 2, 2014, the gain of \$5,734,656 is reflected in investment activities and not in operating activities. The result of this classification has the effect of presenting a negative cash flow for operating activities. Notwithstanding this presentation rule cash flows would be of \$2,897,670.

Cash flows used for operating activities amounted to (\$2,836,986) for the nine-month period ended February 28, 2015 and (\$892,857) for the nine-month period ended February 28, 2014.

Cash flows from financing activities amounted to (\$2,212,029) for the nine-month period ended February 28, 2015 and represents the reimbursement of non-convertible debenture for \$1,834,173 and the repayment of financing by Investment Quebec amounting to \$377,856. Cash flows used in investment activities amounted to \$589,941 for the nine-month period ended February 28, 2014, and are as follows:

- a) The Company issued a new debenture to replace the convertible debenture. This transaction resulted in net proceeds of \$212,085.
- b) The research and development tax credits were financed by "Investissement Québec" and resulted in a cash inflow of \$377,856.

For the nine-month period ended February 28, 2015, cash flows from investment activities are primarily related to the September 2, 2014, transaction for an amount up to \$6,800,000 of which \$5,734,656 was cashed as at February 28, 2015. For the nine-month period ended February 28, 2014, investment activities consisted largely of a gain on the sale of an undivided co-ownership of the intellectual property of the pharmacy software, to a Quebec banner for the sum of \$ 500,000.

The net change in cash and cash equivalents from these three types of activities amounted to \$650,906 for the nine-month period ended February 28, 2015 and \$5,807 for the nine-month period ended February 28, 2014.



## 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 marketing the ZRx Prescriber on international markets and PraxisLab pharmacy software on Canadian market.

## 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 APRIL 17, 2015

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|  |             |
|--|-------------|
| Common shares  | 135,591,268 |
| Warrants to agents and investors                       | -           |
| Stock options in accordance with the stock option plan | 13,380,000  |

## 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).

*The next section of this report corresponds to a duplication of certain notes from the financial report consistent with the same period.*



**NOTE 4  
CORRECTIONS OF PRIOR PERIOD ERRORS**

The Company has restated the 2014 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 nine-month period ended February 28, 2014. 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 \$176,913. As a result, the proportionate share of the joint venture's net results of \$587,268 is recorded in the interim consolidated financial statements for the nine-month period ended February 28, 2014.

**The effect of the restatements regarding the interim consolidated statements of net income and comprehensive income, for the nine-month period ended February 28, 2014, is as follows:**

|  | Previously established<br>February 28,<br>2014 | Adjustments  | Restated<br>February 28,<br>2014 |
|--|--|--------------|----------------------------------|
| Proportionate share of net results of the joint ventures | \$ (410,355)                                   | \$ (176,913) | \$ (587,268)                     |

**The effect of the restatements regarding the interim consolidated statements of cash flow for the nine-month period ended February 28, 2014, is as follows:**

|  | Previously established<br>February 28,<br>2014 | Adjustments | Restated<br>February 28,<br>2014 |
|--|--|-------------|----------------------------------|
| Proportionate share of net results of the joint ventures | \$ 410,355                                     | \$ 176,913  | \$ 587,268                       |

**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 flows 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 nine-month period ended February 28, 2014. 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 net income and comprehensive income, for the nine-month period ended February 28, 2014, is as follows:**

|                  | Previously established<br>February 28,<br>2014 | Adjustments | Restated<br>February 28,<br>2014 |
|------------------|--|-------------|----------------------------------|
|                  | \$   | \$          | \$                               |
| Development cost | 1,360,878                                      | (37,519)    | 1,323,359                        |

**The effect of the restatements regarding the interim consolidated statements of cash flow for the nine-month period ended February 28, 2014, is as follows:**

|                                  | Previously established<br>February 28,<br>2014 | Adjustments | Restated<br>February 28,<br>2014 |
|----------------------------------|--|-------------|----------------------------------|
|                                  | \$   | \$          | \$                               |
| Amortizations                    | 715,572  | (178,820)   | 536,752                          |
| Acquisition of intangible assets | (322,181)                                      | 141,300     | (180,881)                        |

## NOTE 5

### ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

#### 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 1<sup>st</sup>, 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.



**NOTE 6  
CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

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

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

**Estimated useful life**

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

**Intangible assets**

The values associated with identifiable intangible assets with finite 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.



**NOTE 10  
IMPAIRMENT OF ASSETS**

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



### 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 joint venture EvEMR Inc. was initially established to develop and distribute products for professionals in behavioral health providers in the US market. As at May 31, 2014, no development plan was in place and 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:

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

### 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 two years 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 was 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 <sup>st</sup> 2013 | -        |
| Interest in joint venture       | 39,510   |
| Depreciation                    | (39,510) |
| <b>As at May 31, 2014</b>       | <b>-</b> |



**NOTE 11  
INTEREST IN JOINT VENTURES**

**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. This agreement was terminated by the Company no later than December 30, 2014, due to many important default from EvEMR Inc. under the terms of this license agreement.

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:

|   | February 28,<br>2015 | May 31,<br>2014    |
|---|----------------------|--------------------|
|   | \$                   | \$                 |
| Current assets  | 25,654               | 25,654             |
| Non-current assets  | 11,097               | 11,097             |
| <b>Total assets</b>   | <b>36,751</b>        | <b>36,751</b>      |
| Current liabilities   | 66,874               | 66,874             |
| Non-current liabilities   | 803,290              | 803,290            |
| <b>Total liabilities</b>  | <b>870,164</b>       | <b>870,164</b>     |
| 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 <sup>(1)</sup> | 1,561,147            | 1,527,729          |
| <b>Interest in joint venture</b>                                | <b>-</b>             | <b>-</b>           |
| 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 <sup>(1)</sup> | -                    | 1,527,729          |
| <b>Proportionate share of net result of the joint venture</b>   | <b>-</b>             | <b>(1,019,368)</b> |

<sup>(1)</sup> The 50% interest in EvEMR Inc. is nil as at November 30, 2014 and as at May 31, 2014. The Company did not recognized 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 International are as follows:

|  | February 28,<br>2015 | May 31,<br>2014 |
|--|----------------------|-----------------|
|  | \$                   | \$              |
| Current assets   | 65,301               | 65,301          |
| Non-current assets                                     | 341,725              | 341,725         |
| <b>Total assets</b>                                    | <b>407,026</b>       | <b>407,026</b>  |
| Current liabilities                                    | 6,301                | 6,301           |
| Non-current liabilities                                | 361,215              | 361,215         |
| <b>Total Liabilities</b>                               | <b>367,516</b>       | <b>367,516</b>  |
| Net assets   | 39,510               | 39,510          |
| Depreciation <sup>(1)</sup>                            | (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          |

<sup>(1)</sup> 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.

**NOTE 13  
NON-CONVERTIBLE DEBENTURE**

On October 30, 2013, the Company issued a secured debenture with a nominal value of US \$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)   |
| <b>Fair value of the equity component</b>   | <b>45,878</b> |

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 May 31, 2014, of \$1,783,457, 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.

On September 3, 2014, the Company repaid the existing non-convertible debenture for a principal amount and interest totaling \$2,134,866. The company has obtained full, final and definitive release from the creditor.

#### **NOTE 14 SHORT-TERM DEBT**

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

As at May 31, 2014, the funding for \$377,856 is allocated as follows: an amount of \$308,520 for the 2013 fiscal year and \$69,336 for the 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 paid 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 \$86,670 was paid in full, on receipt of the tax credit, in February 2015, amounted to \$316,315 for the fiscal year ended May 31, 2014.

#### **NOTE 18 STOCK OPTION PLAN**

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 28, 2014. 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 exercised 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 nine-month period ended February 28, 2015 and the fiscal years ended May 31, 2014:

|                                 | Options     | Average<br>exercise price |
|---------------------------------|-------------|---------------------------|
|                                 |             | \$                        |
| Balance as at June 1, 2013      | 12,837,500  | 0.15                      |
| Cancelled                       | (4,745,000) | 0.17                      |
| Balance as at May 31, 2014      | 8,092,500   | 0.14                      |
| Awarded                         | 7,600,000   | 0.05                      |
| Cancelled                       | (2,312,500) | 0.15                      |
| Balance as at February 28, 2015 | 13,380,000  | 0.09                      |

The following table summarizes the information about the outstanding stock options for the nine-month period ended February 28, 2015 and the fiscal years ended May 31, 2014.



**a) As at February 28, 2015**

| Outstanding options |  |                                 |                             | Exercisable options |                                 |
|---------------------|--|---------------------------------|-----------------------------|---------------------|---------------------------------|
| Number              | Weighted average remaining contractual life (months) | Weighted average exercise price | Weighted average fair value | Number              | Weighted average exercise price |
|                     |  | \$                              | \$                          |                     | \$                              |
| 1,435,000           | 10   | 0.20                            | 0.12                        | 1,435,000           | 0.20                            |
| 1,845,000           | 21   | 0.15                            | 0.05                        | 1,845,000           | 0.15                            |
| 2,500,000           | 29   | 0.10                            | 0.04                        | 2,500,000           | 0.10                            |
| 7,600,000           | 59   | 0.05                            | 0.01                        | 7,600,000           | 0.05                            |
| 13,380,000          | 43   | 0.09                            | .03                         | 13,380,000          | 0.09                            |

**Transaction during the nine-month period ended February 28, 2015**

In January 2015, the Company granted 7,600,000 stock options which entitle the holders to purchase 7,600,000 common shares at an exercise price of \$0.05 per share for a period of five years.

The fair value of the stock options awarded during the for the nine-month period ended February 28,2015 was estimated on the grant date using the Black-Scholes' options pricing model with the following assumptions:

|                         |                  |
|-------------------------|------------------|
| Date                    | January 19, 2015 |
| Quantity                | 7,600,000        |
| Stock price             | \$0.010          |
| Dividend yield          | Nil              |
| Expected volatility     | 128%             |
| Risk-free interest rate | 1.43%            |
| Expected life           | 60 months        |

The stock-based compensation expense amounts to \$53,200 for the nine-period ended February 28, 2015.

**b) As at May 31, 2014**

| Outstanding options |  |                                 |                             | Exercisable options |                                 |
|---------------------|--|---------------------------------|-----------------------------|---------------------|---------------------------------|
| Number              | Weighted average remaining contractual life (months) | Weighted average exercise price | Weighted average fair value | Number              | Weighted average exercise price |
|                     |  | \$                              | \$                          |                     | \$                              |
| 100,000             | 3  | 0.32                            | 0.14                        | 100,000             | 0.32                            |
| 1,915,000           | 19   | 0.20                            | 0.12                        | 1,915,000           | 0.20                            |
| 17,500              | 19   | 0.20                            | 0.12                        | 17,500              | 0.20                            |
| 2,865,000           | 30   | 0.15                            | 0.05                        | 2,865,000           | 0.15                            |
| 3,195,000           | 38   | 0.10                            | 0.04                        | 3,195,000           | 0.10                            |
| 8,092,500           | 30   | 0.14                            | 0.06                        | 8,092,500           | 0.14                            |

**Transaction during 2014**

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



**NOTE 21  
RISK MANAGEMENT OF FINANCIAL INSTRUMENTS**

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 February 28, 2015, the Company has the following balances in converted U.S. dollars: cash: \$60. 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.

|  | <b>Effects of variation in the exchange rate of the U.S.<br/>dollar against the Canadian dollar</b> |                 |                      |                 |
|--|---|-----------------|----------------------|-----------------|
|  | <b>10 % increase</b>  |                 | <b>10% decrease</b>  |                 |
|  | February 28,<br>2015  | May 31,<br>2014 | February 28,<br>2015 | May 31,<br>2014 |
| Debenture \$1,783,457 as at May 31, 2014 | \$ -  | \$ 1,961,803    | \$ -                 | \$ 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.

**NOTE 23  
RELATED PARTY TRANSACTIONS**

**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. Following the transaction of September 2, 2014, an adjustment of \$94,690 was provided to key management personnel. The total remuneration of key management for the nine months ended February 28, 2015 was \$537,000 (\$304,000 for the nine months period ended February 28, 2014).

**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 nine-month period ended February 28, 2015, an amount of \$240,063 (\$47,068 for the nine-month period ended February 28, 2014) was paid to the law firm.

Accounts payable and accrued liabilities include an amount of \$5,266 (\$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 nine-month periods ended February 28, 2015 and 2014, 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.