



INTERIM CONSOLIDATED FINANCIAL REPORT

FOR THE PERIOD ENDED
AUGUST 31, 2016



**INTERIM CONSOLIDATED FINANCIAL REPORT
AS AT AUGUST 31, 2016 AND 2015**

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To the shareholders of
ZOOMMED INC.

MANAGEMENT COMMENTS

The interim consolidated financial report of ZoomMed Inc. for the three-month periods ended August 31, 2016 and 2015 and all information contained in this interim consolidated financial report is the responsibility of the management and has been approved by the Board of Directors.

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

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

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

The interim consolidated financial report for the three-month periods ended August 31, 2016 and 2015, has not been reviewed or audited by independent auditors.

October 21, 2016

(Signed) Yves Marmet

Yves Marmet,
President & Chief Executive Officer



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)
AS AT AUGUST 31, 2016 AND MAY 31, 2016

	August 31, 2016 (unaudited)	May 31, 2016 (audited)
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	94,792	323,396
Receivables (Note 8)	210,624	303,035
Leasehold improvement allowance receivable (Note 9)	7,360	7,360
Prepaid expenses	18,395	20,803
	331,171	654,594
Non-current assets		
Contingent consideration receivable (Note 8)	89,589	87,984
Leasehold improvement allowance receivable (Note 9)	29,441	29,441
Fixed assets (Note 10)	222,852	235,611
Intangible assets (Note 11)	100,000	100,000
Total assets	773,053	1,107,630
LIABILITIES		
Current liabilities		
Payables (Note 12)	414,443	316,702
Current portion of long-term debt (Note 13)	68,000	51,000
Current portion of obligations under a finance lease contract (Note 14)	4,786	4,701
	487,229	372,403
Non-current liabilities		
Provision for loss-making contracts (Note 5)	12,338	16,225
Long-term debt (Note 13)	102,000	119,000
Obligations under a finance lease contract (Note 14)	16,094	17,323
Lease inducement	85,089	89,730
Total liabilities	702,750	614,681
SHAREHOLDERS' EQUITY		
Share capital (Note 17)	25,509,437	25,509,437
Contributed surplus	6,655,185	6,655,185
Deficit	(32,094,319)	(31,671,673)
Total equity	70,303	492,949
Total liabilities and equity	773,053	1,107,630

ON BEHALF OF THE BOARD OF DIRECTORS

(Signed) Yves Marmet, Chairman of the Board and Chief Executive Officer

(Signed) Marie-Hélène Pinard, Director and Chief Financial Officer



**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

	Share capital	Contributed surplus	Deficit	Total
	\$	\$	\$	\$
Balance as at May 31, 2016	25,509,437	6,655,185	(31,671,673)	492,949
Net result	-	-	(422,646)	(422,646)
Balance as at August 31, 2016	25,509,437	6,655,185	(32,094,319)	70,303

	Share capital	Contributed surplus	Deficit	Total
	\$	\$	\$	\$
Balance as at May 31, 2015	25,509,437	6,635,055	(30,721,251)	1,423,241
Net result	-	-	(450,853)	(450,853)
Balance as at August 31, 2015	25,509,437	6,635,055	(31,172,104)	972,388



**INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

	August 31, 2016 (3 months) (unaudited) \$	August 31, 2015 (3 months) (unaudited) \$
CONTINUING OPERATIONS		
REVENUE	-	-
OPERATING EXPENSES (Note 15)		
Selling expenses	80,655	20,145
Administrative expenses	215,906	203,242
General operating expenses	50,346	48,072
Development cost	73,622	54,690
Financial expenses	3,722	2,655
	424,251	328,804
LOSS BEFORE INCOME TAXES	(424,251)	(328,804)
INCOME TAXES	-	-
Net loss from continuing operations	(424,251)	(328,804)
Net profit (Net loss) from discontinued operations in a geographical area (Note 4)	1,605	(122,049)
NET RESULT AND COMPREHENSIVE INCOME	(422,646)	(450,853)
Basic and diluted net result per share from continuing operations	(0.003)	(0.002)
Basic and diluted net and comprehensive result per share	(0.003)	(0.003)
WEIGHTED AVERAGE NUMBER OF OUTSTANDING COMMON SHARES	135,591,268	135,591,268



**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

	August 31, 2016 (3 months) (unaudited) \$	August 31, 2015 (3 months) (unaudited) \$
OPERATING ACTIVITIES		
Consolidated net and comprehensive income	(422,646)	(450,853)
Net result from discontinued operations in a geographical area	1,605	(122,049)
Net result from continuing operations	(424,251)	(328,804)
Amortization	12,759	968
Lease inducement	(4,641)	-
Net result from discontinued operations	1,605	(122,049)
Amortization	-	120,703
Provision from loss-making contracts	(3,887)	(4,249)
Net change in non-cash operating working capital items (Note 23)	190,955	(13,202)
Cash flows used in operating activities	(227,460)	(346,633)
FINANCING ACTIVITIES		
Continuing operations		
Repayment of obligations under a finance lease contract	(1,144)	-
Cash flows from financing activities	(1,144)	-
INVESTING ACTIVITIES		
Continuing operations		
Acquisition of fixed assets	-	(6,913)
Cash flows from investing activities	-	(6,913)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(228,604)	(353,546)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	323,396	574,273
CASH AND CASH EQUIVALENTS, END OF YEAR	94,792	220,727

Cash flows used in operating activities include interest expenses of \$2,612 for the three-month period ended August 31, 2016 and \$NIL for the three-month period ended August 31, 2015.



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

1. GENERAL INFORMATION

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

ZoomMed Inc. and its subsidiaries (the "Company") are committed to the development and the marketing of 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. It was designed with the guidance of a committee of physicians. Their requirements called for a speedy and intuitive e-Prescribing application that would facilitate their day-to-day functions, helping them in making the appropriate decisions and choices and protecting them against potential errors and distractions. Accordingly, the ZRx Prescriber was designed with essential PREDICTIVE and PRE-EMPTIVE features that far outweigh what the market had to offer until then. The ZRx Prescriber software acts like the latest software such as Google Search or Apple IOS auto-completing keyboard. Unlike static e-Prescribers, the ZRx cloud-based Prescriber solution dynamically analyzes each user's prescribing pattern and displays the expected medication. Furthermore, the pre-emptive features of the ZRx Prescriber, such as drug interactions and potential allergies, are automatically displayed to the physician without him having to solicit and activate an external review module. In addition most important for the very active physician, it allows him to write legible and secure prescriptions and deal with renewals in a few seconds, in fact faster than with a pen.

Regarding the American market, the ZRx Prescriber is Surescripts® certified and has been tested and certified under the ONC HIT Certification Program (Office of the National Coordinator for Health Information Technology). It is currently in the process of certification for Electronic Prescriptions for Controlled Substances (EPCS).

On November 19, 2015, the Company sold to Familiprix inc., all of the intellectual property rights of its pharmacy laboratory management software "PraxisLab" (Note 4).

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

The Company's registered head office is located at 8005 Du Quartier Blvd., Suite 303, Brossard, Quebec, Canada, J4Y 0N5.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company prepares its interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These interim consolidated financial statements have been approved by the Board of Directors on October 21, 2016.

These interim consolidated financial statements have been prepared in accordance with a going concern. Under the going concern assumption, a Company is viewed as being able to continue its operations in the foreseeable future, and realize its assets and discharge its liabilities in the normal course of operations.

The continuity of the Company's business depends on its abilities to market its technology outside of Canada. It is not possible to predict, at this point, whether these elements will materialize.

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



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

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

Consolidation

The consolidated financial statements include the accounts of ZoomMed Inc. and its subsidiaries ZoomMed Médical Inc., Praxis Santé Inc. and ZoomMed USA Inc. All intercompany balances and transactions are eliminated upon consolidation.

Revenue recognition

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

Interest revenue is recorded on a fiscal year basis according to the effective interest rate method.

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Their classification depends on the purpose aimed for when the financial instruments were acquired or issued, their characteristics and their designation by the Company. Settlement date accounting is used.

All financial assets, except those designated at fair value through profit or loss, are subject to an annual impairment test and written down when there is an indication of impairment. The impairment loss is the excess of the carrying value over fair value and is recorded in the consolidated statements of net income and comprehensive income.

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

Financial assets at fair value through net results – All instruments included in this category meet the definition of financial assets held for trading. Financial instruments held for trading are instruments that are held for the purpose of selling in the short term. Instruments in this category include cash and cash equivalents. They are measured initially and subsequently at fair value and changes in fair value are recognized in the consolidated statements of net and comprehensive income in financial income or financial expenses in the period in which they occur. The directly attributable transaction costs are recognized in net and comprehensive income.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company includes accounts receivable, contingent consideration receivable, loan to a related company and the loan to an employee in this category. Financial instruments included in this category are initially recognized at fair value plus directly attributable transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method.

Other liabilities - Financial instruments included in this category are initially recognized at fair value and transaction costs are deducted from the fair value. Subsequently, other liabilities are measured at amortized cost. The Company includes accounts payable, as well as the liability component of non-convertible debenture, short-term debt in this category and obligation under a finance lease contract.



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances, short-term liquid investments with maturities of less than three months and bank overdrafts, if any, which are classified as a category at fair value through net result.

Assets held for sale and discontinued operations

Assets and liabilities held for sale are not amortized anymore and are reported separately in the consolidated statement of financial position, for an amount representing the lowest value between their book value and fair value, less costs of the sale. An asset is considered as held for sale when its carrying value will be recovered mainly through a sale transaction, rather than through continuing use. In order for the sale to be classified as such, the asset must be available for immediate sale and its sale must be highly probable.

A discontinued operation represents a separate major line of business or geographical area of operations that either has been disposed of, or is classified as held for sale. Consolidated statement of financial position items relating to these discontinued operations are presented on specific lines of the annual consolidated financial statements. Comprehensive income items related to these discontinued operations are presented separately in the consolidated financial statements for all fiscal years presented if they are of significance to the Company.

Fixed assets

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

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

	Method	Periods
Furniture	Straight-line	5 years
Computer equipment	Straight-line	3 years
IP Telephone system	Straight-line	5 years
Leasehold improvements	Straight-line	5 years

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

Gains and losses on disposals of fixed assets are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statements of net income and comprehensive income.

Intangible assets

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



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

The ZRx Prescriber intellectual property is recorded at cost and is amortized over a ten-year period from the marketing date of the product, which is November 2006. The ZRx Prescriber development costs, which include the development of ZoomMed's communication network and the additional new functionalities, according to future economic benefits, are amortized using the straight-line method over a three-year period from the implementation date of the product. On September 2, 2014, following the sale of the operating rights in the Canadian market, an impairment for the total net value was recorded.

The PraxisLab intellectual property is recorded at cost and is amortized from the date of acquisition. As at May 31, 2014, an impairment for the total net value of intellectual property has been recorded. As at May 31, 2015, a reversal of impairment of PraxisLab intellectual property was recorded and on November 19, 2015, following the sale of all of the intellectual property rights of PraxisLab, the total net value of development costs and intellectual property was derecognize.

Research and development tax credits

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

Impairment of long-term non-financial assets

Non-current assets with indefinite useful lives are not amortized and are tested for impairment annually. Non-current assets with a finite useful life are assessed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value and an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows or cash-generating units ("CGU").

In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Operating Leases

Leases under which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments under an operating lease (less benefit received from the lessor) are recognized in the consolidated statements of net and comprehensive income on a straight-line basis over the lease term.

Leases under which the Company retains substantially all the risks and rewards of ownership are classified as finance lease contracts. Contracts finance leases are capitalized at the inception of the lease for an amount equal to the fair value of the leased property or if it is lower, at the present value of payments minimum under the lease. Assets acquired under a finance lease agreement are amortized over the useful life of the asset or over the term of the lease if it is shorter.

Lease inducements

Lease inducements received are recorded at cost and amortized on a straight line basis over the term of the lease (69 months) expiring on March 31, 2021. Depreciation is recognized as a reduction of rent expense.

Provisions

Nature of provisioned liabilities

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, provisions for risks and expenses are recognized to cover probable outflows of resources that can be estimated and that result from present obligations resulting from past events. In the case where a potential obligation resulting from past events exists, but where occurrence of the outflow of resources is not probable or the estimate is not reliable, these contingent liabilities are disclosed in off-balance sheet commitments and litigation. The provisions are measured based on management's best estimate of net income based on facts known at the reporting date. The provisions include provisions for litigation (tax, legal, employee-related), for returns, for the environment and for loss-making contracts. Litigation is kept under regular review, on a case-by-case basis, by the Company's legal department with the assistance of outside counsel for more significant or complex disputes. A provision is recorded when it becomes probable that a present obligation arising from a past event will require an outflow of resources that can be reliably estimated. The amount of the provision is the best estimate of the outflow of resources required to settle this obligation.

Shareholders' equity

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

Income taxes

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

Employee's benefits

Wages, contributions to government pension plans, paid vacations and sick leaves, bonuses and non-monetary benefits are short-term benefits and are recognized over the period during which the employees of the Company have rendered the related services.



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Stock-based compensation

The Company offers a stock-based compensation plan. The Company uses the fair value based method of accounting as regards to stock options granted to its Officers, Directors, Employees and Consultants. The fair value of stock options is determined using the Black-Scholes options pricing model, and the stock-based compensation costs are recorded in the consolidated statements of net and comprehensive income at the granted date and credited to contributed surplus. Any consideration received by the Company in connection with the exercise of stock options is credited to share capital and contributed surplus component of the stock-based compensation is transferred to share capital upon the issuance of shares.

Accounts denominated in foreign currencies

Presentation currency and foreign currency operations – The Canadian dollars is the Company's presentation currency, which is also the Company's functional currency. Foreign currency transactions are translated into the functional currency environment in which the entity operates using the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies at the closing date are converted into functional currencies at the exchange rates prevailing at that date. All resulting changes are recognized in the profit or loss, except monetary items included into foreign institution net investment.

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

Basic net earnings and diluted per share

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

When funds are received, at the date of issuance of dilutive instruments, the net amount is adjusted net of tax expenses related to these instruments.

Diluted net earnings per share from continuing operations is the same as basic net earnings per share due to the anti-dilutive effect of stock options and warrants when the Company suffers losses and / or the stock options and warrants are issued at a premium to the average market price.

4. DISCONTINUED OPERATIONS

Business Line

On November 19, 2015, the Company sold to Familiprix inc., all of the intellectual property rights of its pharmacy laboratory management software "PraxisLab".

Net income from discontinued operations in a geographical region is presented in the consolidated statements of net and comprehensive income according to the table below.

The classification consisted in the allocation of income and expenses related to discontinued operations.



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

4. DISCONTINUED OPERATIONS (CONT.)

	August 31, 2016 (3 months) (unaudited)	August 31, 2015 (3 months) (unaudited)
	\$	\$
REVENUE	-	-
OPERATING EXPENSES		
Administrative expenses	-	15,000
General operating expenses	-	250
Development cost	-	120,703
Financial revenues	(1,605)	(13,904)
	(1,605)	122,049
RESULT FROM DISCONTINUED ORDINARY OPERATIONS BEFORE TAXES	1,605	(122,049)
Income tax payable	-	-
NET PROFIT FROM DISCONTINUED OPERATIONS	1,605	(122,049)

5. PROVISION FOR LOSS-MAKING CONTRACTS

Provision for loss-making contracts is related to two contracts from discontinued Canadian operations in Toronto. The first contract is related losses from sublease under the lease of Markham and a second lease of a multifunction printer. These contracts generated a shortfall of \$12,338 for the period, which will end August 31, 2017.

	Total
	\$
Balance as at May 31, 2015	30,009
Use	(13,784)
Balance as at May 31, 2016	16,225
Use	(3,887)
Balance as at August 31, 2016	12,338

6. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

Financial Instruments

The final version of IFRS 9, issued by the IASB in July 2014, replaces IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives* as well as the versions of IFRS 9 issued by the IASB in November 2013, October 2010 and November 2009. The final standard largely retains the classification and measurement requirements and new hedge accounting model included in earlier versions, while introducing a single forward-looking expected credit loss impairment model. The main features introduced in the final version of this new standard are as follows:

- Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is to both collect contractual cash flows and sell financial assets, and the contractual cash flows are solely payments of principal and interest.

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

- All gains and losses on financial assets measured at fair value through other comprehensive income are recognized in profit or loss when the financial asset is impaired, reclassified to fair value through profit or loss, or derecognized.
- An expected credit loss impairment model is applicable to financial instruments measured at amortized cost or fair value through other comprehensive income, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes 12-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses if credit risk has increased significantly since initial recognition.
- IFRS 9 also includes new general hedge accounting requirements, which will result in aligning hedge accounting more closely with risk management. These new requirements do not significantly change the types of hedging relationships or the requirement to measure hedge ineffectiveness. However, they will provide a broader range of hedging strategies for risk management purposes that qualify for hedge accounting, and further require the use of judgment in measuring the effectiveness of a hedging relationship. Specific transitional provisions have been developed to apply the new general hedge accounting requirements.

The Company will have to classify financial assets as subsequently measured at either amortized cost or fair value, based on the Company's business model for managing the financial assets and contractual cash flows of the financial asset. Measurement at amortized cost for most financial liabilities is maintained; however, when an entity measures a financial liability at fair value, the portion of the changes in fair value related to the entity's own credit risk must be presented in other comprehensive income rather than in profit or loss.

IFRS 9 also resulted in consequential amendments to IFRS 7 *Financial Instruments: Disclosures* to include disclosures about an entity's risk management strategy and the effect of hedge accounting on the financial statements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and the standard should be applied retrospectively, subject to certain exceptions. Restatement of prior periods is not required and is only permitted if it is possible without the use of hindsight. The Company is currently analyzing the potential effects of adopting this standard on its consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortization

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets have been revised to incorporate amendments issued by the IASB in May 2014. The amendments to IAS 16 clarify that the use of revenue-based methods to determine the depreciation of an asset is not appropriate. The amendments to IAS 38 clarify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. However, the amendments provide limited circumstances when a revenue-based method can be an appropriate basis for amortization. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently analyzing the potential effects of adopting this standard on its consolidated statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue – Barter Transactions Involving Advertising Services.

The standard provides for a single model that applies to contracts with customers as well as two revenue recognition approaches: at a point in time or over time. The proposed model features a contract-based, five-step analysis of transactions to determine whether, when and how much revenue is recognized. New thresholds have been established for estimates and judgments, which could affect the amount of revenue recognized and/or the timing of recognition.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or leases, which are within the scope of other IFRSs. The new standard is effective for the annual period beginning on January 1, 2018. The Company is currently analyzing the potential effects of adopting this standard on its consolidated statements.



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
FOR THE THREE-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015**

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

IFRS 16, “Leases”

In January 2016, the IASB issued IFRS 16, which will replace IAS 17, “Leases.” IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position with exemptions permitted for leases of low-value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and the liability (including complexities such as non-lease elements, variable lease payments and options periods), changes the accounting for sale and leaseback arrangements, largely retains the approach to lessor accounting in IAS 17, and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier adoption is permitted in certain circumstances. The Company has not yet assessed the impact of this standard on its consolidated financial statements.

7. 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

Management assesses fixed assets and intangible assets in line with the assets useful life. The amount and the depreciation schedule related to fixed assets and intangible assets for a given period are affected by the estimated useful lives. 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.

In order to determine whether the identifiable intangible assets have suffered an impairment loss after acquisition or if an intangible asset having suffered an impairment loss may recover its carrying value, management makes assessments based on estimates including, in particular, future risk-adjusted cash flows. Cash flow projections are made according to the Company’s forecasts, the economic conditions and business opportunities and therefore are inherently based on judgment.

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.



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7. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONT.)

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.

Contingent consideration receivable

Management assess the contingent consideration receivable based on the likelihood of the potential level of achievement of the contractual conditions to be met.

Going concern

The assessment of the Company's ability to commercialize its technology 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.

8. ACCOUNTS RECEIVABLE

	August 31, 2016	May 31, 2016
	\$	\$
Contingent consideration receivable ⁽¹⁾	50,000	50,000
Sales tax	21,456	19,582
Research and development tax credits ⁽²⁾	51,396	144,643
Loan to a related company, without interest maturing in November 2016 (Note 22)	100,000	100,000
Loan to an employee, without interest maturing in November 2016	50,000	50,000
Provision for impairment – Loan to a related company (Note 22)	(100,000)	(100,000)
Other receivables	37,772	38,810
Total	210,624	303,035

⁽¹⁾ Represents a balance receivable of \$139,589 as part of the transaction with Familiprix Inc. (\$50,000 short term and \$89,589 long-term) as at August 31, 2016 and a balance receivable of \$137,984 as at May 31, 2016.

⁽²⁾ The exact amount will be known when Revenu Québec will process and approve the claim. Approved amount could differ from the recorded amount.



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9. LEASEHOLD IMPROVEMENT ALLOWANCE RECEIVABLE

According to the lease of the new premises, the landlord allocated an improvement allowance of \$25 per ft², repayable over a 5-year period in the amount of \$8,582 per year. The first payment is due on December 31, 2016. If the Company exercises its option to renew the lease, the lessor will allocate an additional improvement allowance in the same amount for the 5-year renewal term. As at August 31, 2016, the Company did not record the allowance for the renewal option.

	Total
	\$
Balance as at May 31, 2016	36,801
Payments during the period	-
Balance as at August 31, 2016	36,801
Current portion	7,360
Long-term portion	29,441
	36,801

10. FIXED ASSETS

	Furniture	Computer equipment	IP telephone system obligations under a finance lease contract *	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Cost					
As at June 1, 2016	55,115	54,122	25,998	197,348	332,583
Acquisitions	-	-	-	-	-
As at August 31, 2016	55,115	54,122	25,998	197,348	332,583
Accumulated amortization					
As at June 1, 2016	37,561	48,406	1,300	9,705	96,972
Amortizations	923	669	1,300	9,867	12,759
As at August 31, 2016	38,484	49,075	2,600	19,572	109,731
Net book value as at August 31, 2016	16,631	5,047	23,398	177,776	222,852



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10. FIXED ASSETS (CONT.)

	Furniture	Computer equipment	IP telephone system obligations under a finance lease contract *	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Cost					
As at June 1, 2015	59,486	87,333	-	46,481	193,300
Acquisitions	18,457	5,631	25,998	197,348	247,434
Disposals	(22,828)	(38,842)	-	(46,481)	(108,151)
As at May 31, 2016	55,115	54,122	25,998	197,348	332,583
Accumulated amortization					
As at June 1, 2015	59,486	82,448	-	46,481	188,415
Amortizations	904	4,548	1,300	9,705	16,457
Disposals	(22,829)	(38,590)	-	(46,481)	(107,900)
As at May 31, 2016	37,561	48,406	1,300	9,705	96,972
Net book value as at May 31, 2016	17,554	5,716	24,698	187,643	235,611

* During the fiscal year ended May 31, 2016, the Company acquired for \$25,998 of fixed assets under a finance lease contract.

11. INTANGIBLE ASSETS

	Software	Licenses and rights	Intellectual properties	Development costs	Total
	\$	\$	\$	\$	\$
Cost					
As at June 1, 2016	4,322	100,000	2,253,934	2,261,549	4,619,805
Acquisitions	-	-	-	-	-
As at August 31, 2016	4,322	100,000	2,253,934	2,261,549	4,619,805
Accumulated Amortization					
As at June 1, 2016	4,322	-	2,253,934	2,261,549	4,519,805
Amortizations	-	-	-	-	-
As at August 31, 2016	4,322	-	2,253,934	2,261,549	4,519,805
Net book value as at August 31, 2016	-	100,000	-	-	100,000



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11. INTANGIBLE ASSETS (CONT.)

	Software	Licenses and rights	Intellectual properties	Development costs	Total
	\$	\$	\$	\$	\$
Cost					
As at June 1, 2015	4,322	175,000	3,417,736	3,360,846	6,957,904
Acquisitions	-	100,000	-	-	100,000
Disposals	-	-	(1,163,802)	(1,099,297)	(2,263,099)
Write-off	-	(175,000)	-	-	(175,000)
As at May 31, 2016	4,322	100,000	2,253,934	2,261,549	4,619,805
Accumulated Amortization					
As at June 1, 2015	4,322	175,000	2,748,549	2,994,414	5,922,285
Amortizations	-	-	54,311	171,002	225,313
Disposals	-	-	(548,926)	(903,867)	(1,452,793)
Write-off	-	(175,000)	-	-	(175,000)
As at May 31, 2016	4,322	-	2,253,934	2,261,549	4,519,805
Net book value as at May 31, 2016	-	100,000	-	-	100,000

12. ACCOUNTS PAYABLE

	August 31, 2016	May 31, 2016
	\$	\$
Accounts payable and accrued liabilities	224,557	186,927
Wages and tax deductions	189,886	129,775
Total	414,443	316,702

13. LONG-TERM DEBT

On July 14, 2015, the Company entered into a loan offer to finance leasehold improvements with Investissement Québec for a total amount of \$170,000.

The loan bears interest at prime plus 2.5%. The interest is payable monthly starting in March 2016 and is secured by a first ranking moveable hypothec in the amount of \$204,000 and an additional \$40,800 hypothec encumbering the universality of present and future goods, property, both tangible and intangible of ZoomMed Inc., totaling \$244,800.

The loan disbursement was made February 25, 2016 in a single payment of \$170,000 and the capital is payable in 30 equal monthly installments of \$5,667 starting September 30, 2016 and maturing February 28, 2019.



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13. LONG-TERM DEBT

	Total
	\$
Initial amount	170,000
Payment during the period	-
Balance as at May 31, 2016	170,000
Payment during the period	-
Balance as at August 31, 2016	170,000
Current portion obligations under a finance lease contract	68,000
Long-term portion obligations under a finance lease contract	102,000

Payments to be made in the coming years are as follows:

	\$
2017	68,000
2018	68,000
2019	34,000

14. OBLIGATIONS UNDER A FINANCE LEASE CONTRACT

The Company entered into a finance lease contract for the installation and use of an IP telephone system. The contract expires July 15, 2020 and the residual value is \$1. The contract is repayable in monthly principal and interest payments of \$511.

	Total
	\$
Initial amount	25,998
Payment during the period	(3,974)
Balance as at May 31, 2016	22,024
Payment during the period	(1,144)
Balance as at August 31, 2016	20,880
Current portion obligations under a finance lease contract	4,786
Long-term portion obligations under a finance lease contract	16,094
	20,880



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14. OBLIGATIONS UNDER A FINANCE LEASE CONTRACT (CONT.)

Minimum finance lease payments for upcoming years are as follows:

	Minimum finance lease payments		Present value of minimum finance lease payments	
	August 31, 2016	May 31, 2016	August 31, 2016	May 31, 2016
	\$	\$	\$	\$
2017	6,134	6,134	4,935	4,701
2018	6,134	6,134	5,198	5,051
2019	6,134	6,134	5,474	5,427
2020	5,622	6,134	5,273	5,831
2021	-	1,021	-	1,014
Interest included in the minimum payments	(3,144)	(3,533)	-	-
Discounted value of minimum payments under the finance lease	20,880	22,024	20,880	22,024

15. INFORMATION ON OPERATING EXPENSES

	August 31, 2016 (3 months) (unaudited)	August 31, 2015 (3 months) (unaudited)
	\$	\$
a) Selling expenses :		
Selling expenses	35,668	4,474
Salaries and benefits	41,797	15,429
Amortization of tangible assets	3,190	242
	80,655	20,145
b) Administrative expenses :		
Administrative expenses	91,328	103,606
Salaries and benefits	121,388	99,394
Amortization of tangible assets	3,190	242
	215,906	203,242
c) General operating expenses :		
Salaries and benefits	47,156	47,830
Amortization of tangible assets	3,190	242
	50,346	48,072
d) Development cost :		
Development cost	11,949	10,414
Salaries and benefits	58,484	44,035
Amortization of tangible assets	3,189	241
	73,622	54,690



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15. INFORMATION ON OPERATING EXPENSES (CONT.)

	August 31, 2016 (3 months) (unaudited)	August 31, 2015 (3 months) (unaudited)
	\$	\$
e) Financial expenses :		
Interest and bank charges	891	3,381
Interest on long-term debt	2,222	-
Interests on finance lease contracts	390	-
Exchange rate variation	219	(726)
	3,722	2,655

16. CONTRACTUAL COMMITMENTS

During the fiscal year ended May 31, 2016, the Company signed a lease agreement for a five-year period with a renewal option for an additional period of five years under the same terms and conditions. As collateral, the Company has granted the lessor a second ranking movable hypothec in the amount of \$114,713, plus an additional hypothec of 20% of that amount on the universality of movable property, present and future of ZoomMed Inc.

As at August 31, 2016, the balance of commitments under leaseholds and operating leases amounts to \$541,518.

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

	2017	2018	2019	2020	2021
	\$	\$	\$	\$	\$
Leasehold – Head Office	108,998	108,998	108,998	108,998	63,582
Multi-function printers	10,486	10,486	10,486	10,486	-
	119,484	119,484	119,484	119,484	63,582

17. SHARE CAPITAL

a) Authorized

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

b) Declared

	August 31, 2016	May 31, 2016
	\$	\$
135,591,268 common shares as at August 31, 2016 and May 31, 2016	25,509,437	25,509,437

c) Transaction during the three-month period ended August 31, 2016

No transaction occurred during the three-month period ended August 31, 2016.

d) Transactions during fiscal year ended May 31, 2016

No transaction occurred during the fiscal year ended May 31, 2016.



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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 20, 2015. 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 three-month period ended August 31, 2016 and the fiscal year ended May 31, 2016:

	Options	Average exercise price
		\$
Balance as at June 1, 2015	13,380,000	0.09
Awarded	1,100,000	0.21
Cancelled	(1,965,000)	0.16
Balance as at May 31, 2016	12,515,000	0.09
	-	-
Balance as at August 31, 2016	12,515,000	0.09

Transaction during the three-month period ended August 31, 2016

No transaction occurred during the three-month period ended August 31, 2016.

Transactions during fiscal year ended May 31, 2016

In January 2016, the Company granted 1,100,000 stock options, which entitle the holders to purchase 1,100,000 common shares at an exercise price of \$0.21 per share for a period of five years.

The fair value of the stock options awarded during the fiscal year ended May 31, 2016 was estimated on the grant date using the Black-Scholes' options pricing model with the following assumptions:

Date	January 21, 2016
Quantity	1,100,000
Stock price	\$0.02
Dividend yield	Nil
Expected volatility	196%
Risk-free interest rate	0,71%
Expected life	60 months

The stock-based compensation expense amounts to \$20,130 for the fiscal year ended May 31, 2016.

The following tables summarize the information about the outstanding stock options as at August 31, 2016 and May 31, 2016:



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18. STOCK OPTION PLAN (CONT.)

a) As at August 31, 2016

Outstanding options				Exercisable options	
Number	Weighted average remaining contractual life (months)	Weighted average exercise price	Weighted average fair value	Number	Weighted average exercise price
		\$	\$		\$
1,830,000	3	0.15	0.05	1,830,000	0.15
2,485,000	11	0.10	0.04	2,485,000	0.10
7,100,000	41	0.05	0.01	7,100,000	0.05
1,100,000	53	0.21	0.02	1,100,000	0.21
12,515,000	31	0.09	0.02	12,515,000	0.09

b) As at May 31, 2016

Outstanding options				Exercisable options	
Number	Weighted average remaining contractual life (months)	Weighted average exercise price	Weighted average fair value	Number	Weighted average exercise price
		\$	\$		\$
1,830,000	6	0.15	0.05	1,830,000	0.15
2,485,000	14	0.10	0.04	2,485,000	0.10
7,100,000	44	0.05	0.01	7,100,000	0.05
1,100,000	56	0.21	0.02	1,100,000	0.21
12,515,000	34	0.09	0.02	12,515,000	0.09

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

	August 31, 2016		May 31, 2016	
	Fair value	Carrying value	Fair value	Carrying value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	94,792	94,792	323,396	323,396
Loans receivables	167,500	167,500	167,500	167,500
Financial liabilities				
Obligations under a finance lease contract	20,880	20,880	22,024	22,024
Long-term debt	170,000	170,000	170,000	170,000
Other liabilities	181,524	181,524	98,903	98,903

The fair value of cash and cash equivalents, loans receivables and other liabilities approximates their carrying value, because of the relatively short maturity of these instruments.



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19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT.)

The Company categorizes its financial assets and liabilities measured at fair value using a hierarchy that consists of three levels, which reflects the significance of inputs used in their evaluation. The hierarchy of the fair value consists of the following levels:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Inputs that are supported by little or no market activities and that are significant to the fair value of assets or liabilities.

As at August 31, 2016 and May 31, 2016, the only financial instruments measured at fair value in the consolidated statements of financial position consist of cash and cash equivalents and were all classified in level 1.

20. RISK AND UNCERTAINTIES

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

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

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, 2016, the Company has the following balances in converted U.S. dollars: cash: \$802 (\$421 as at May 31, 2016). No sensitivity analysis was performed due to the immateriality of the balances denominated in foreign currency.

Interest rate risk

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. However, the Company is exposed to interest rate risk on financial instruments bearing fixed interest rates. Financial instruments with fixed interest rates expose the Company to a fair value risk. In addition, it invests part of its liquidity in guaranteed interest rate financial instruments. These financial instruments represent a minimal risk for the Company.



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20. RISK AND UNCERTAINTIES (CONT.)

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 non-convertible debenture and its short-term debt.

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 operating the ZRx Prescriber in the American market and the sale of PraxisLab intellectual property.

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.

Performances linked to the realization of contingent consideration receivable may vary depending on consumer preference changes.

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.

21. CAPITAL DISCLOSURES

In regards to capital management, the Company's objective, from the beginning of its operations, is the continuity of its operations in order to carry on with the development and marketing of the ZRx Prescriber, PraxisLab and ZoomMed's communication network, the protection of its assets, while maximizing the shareholders return on investment. The Company is not subject to any externally imposed capital requirements. The Company has several options regarding its capital needs. See Note 19 for more details.

The Company defines its capital as the sum of its shareholders equity. The shareholders equity of \$70,303 as at August 31, 2016 and \$492,949 as at May 31, 2016, includes share capital, contributed surplus and deficit. The capital decrease of \$422,646 during the three-month period ended August 31, 2016 is attributable to the operating deficit.



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22. 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.

For each of the three-months periods ended August 31, 2016 and 2015, the key management compensation amounted to \$107,694.

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, 2016, an amount of \$938 (\$21,290 for the three-month period ended August 31, 2015) was charged by the law firm. An amount of \$8,682 is included in the accounts payable and the accrued liabilities as at August 31, 2016 (\$7,603 as at May 31, 2016).

The Company's president is also president of the American company "MediSyna Corporation Inc.", which operates in the healthcare sector. During the fiscal year, the Company loaned \$100,000 to MediSyna Corporation Inc. for its start-up costs. The amount is included in the accounts receivable as at August 31, 2016, does not bear interest and is repayable no later than November 30, 2016.

Accounts payable and accrued liabilities also include an amount of \$23,880 (\$7,312 as at May 31, 2016) payable to the directors, without repayment terms or interest.

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-months periods ended August 31, 2016 and 2015, the Company has recorded a provision for receivable due from related parties. A provision for loss has been recorded on the loan to MediSyna Corporation Inc. and is included in administrative expenses. 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.

23. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	August 31, 2016 (3 months) (unaudited)	May 31, 2016 (3 months) (unaudited)
	\$	\$
Receivables	90,805	44,346
Prepaid expenses	2,408	(5,305)
Payables	97,742	(52,243)
Total	190,955	(13,202)
