



# INTERIM CONSOLIDATED FINANCIAL REPORT

FOR THE PERIOD ENDED  
FEBRUARY 28, 2017



**INTERIM CONSOLIDATED FINANCIAL REPORT  
AS AT FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

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To the shareholders of  
**ZOOMMED INC.**

## **MANAGEMENT COMMENTS**

The interim consolidated financial report of ZoomMed Inc. for the nine-month periods ended February 28, 2017 and February 29, 2016 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 nine-month periods ended February 28, 2017 and February 29, 2016, has not been reviewed or audited by independent auditors.

April 21, 2017

(Signed) Yves Marmet

**Yves Marmet,  
President & Chief Executive Officer**



**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)**  
**AS AT FEBRUARY 28, 2017 AND MAY 31, 2016**

|   | February 28,<br>2017<br>(unaudited) | May 31,<br>2016<br>(audited) |
|---|-------------------------------------|------------------------------|
|   | \$                                  | \$                           |
| <b>ASSETS</b>   |                                     |                              |
| <b>Current assets</b>   |                                     |                              |
| Cash and cash equivalents   | 7,969                               | 323,396                      |
| Receivables (Note 8)  | 89,797                              | 303,035                      |
| Leasehold improvement allowance receivable (Note 9)                     | 7,360                               | 7,360                        |
| Prepaid expenses  | 27,558                              | 20,803                       |
|   | 132,684                             | 654,594                      |
| <b>Non-current assets</b>   |                                     |                              |
| Contingent consideration receivable (Note 8)                            | 92,888                              | 87,984                       |
| Leasehold improvement allowance receivable (Note 9)                     | 19,855                              | 29,441                       |
| Fixed assets (Note 10)  | 197,716                             | 235,611                      |
| Intangible assets (Note 11)   | 100,000                             | 100,000                      |
|   |                                     |                              |
| <b>Total assets</b>   | <b>543,143</b>                      | <b>1,107,630</b>             |
| <b>LIABILITIES</b>  |                                     |                              |
| <b>Current liabilities</b>  |                                     |                              |
| Payables (Note 12)  | 870,746                             | 309,390                      |
| Current portion of long-term debt (Note 13)                             | 68,000                              | 51,000                       |
| Loan from Directors (without interest of repayment terms)               | 282,124                             | 7,312                        |
| Current portion of obligations under a finance lease contract (Note 14) | 4,961                               | 4,701                        |
|   | 1,225,831                           | 372,403                      |
| <b>Non-current liabilities</b>  |                                     |                              |
| Provision for loss-making contracts (Note 5)                            | 4,203                               | 16,225                       |
| Long-term debt (Note 13)  | 68,000                              | 119,000                      |
| Obligations under a finance lease contract (Note 14)                    | 13,569                              | 17,323                       |
| Lease inducement  | 75,807                              | 89,730                       |
|   |                                     |                              |
| <b>Total liabilities</b>  | <b>1,387,410</b>                    | <b>614,681</b>               |
| <b>SHAREHOLDERS' EQUITY</b>   |                                     |                              |
| Share capital (Note 17)   | 25,509,437                          | 25,509,437                   |
| Contributed surplus   | 6,655,185                           | 6,655,185                    |
| Deficit   | (33,008,889)                        | (31,671,673)                 |
|   |                                     |                              |
| <b>Total equity</b>   | <b>(844,267)</b>                    | <b>492,949</b>               |
|   |                                     |                              |
| <b>Total liabilities and equity</b>                                     | <b>543,143</b>                      | <b>1,107,630</b>             |

**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 NINE-MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

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|  | Share capital | Contributed surplus | Deficit      | Total       |
|--|---------------|---------------------|--------------|-------------|
|  | \$            | \$                  | \$           | \$          |
| <b>Balance as at May 31, 2016</b>      | 25,509,437    | 6,655,185           | (31,671,673) | 492,949     |
| Net result                             | -             | -                   | (1,337,216)  | (1,337,216) |
| <b>Balance as at February 28, 2017</b> | 25,509,437    | 6,655,185           | (33,008,889) | (844,267)   |

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|   | Share capital | Contributed surplus | Deficit      | Total     |
|---|---------------|---------------------|--------------|-----------|
|   | \$            | \$                  | \$           | \$        |
| <b>Balance as at May 31, 2015</b>             | 25,509,437    | 6,635,055           | (30,721,251) | 1,423,241 |
| Net result                                    | -             | -                   | (281,765)    | (281,765) |
| Fair value of stock options granted (Note 18) | -             | 20,130              | -            | 20,130    |
| <b>Balance as at February 29, 2016</b>        | 25,509,437    | 6,655,185           | (31,003,016) | 1,161,606 |

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INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME (unaudited)  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

|  | February 28,<br>2017<br>(3 months)<br>(unaudited)<br>\$ | February 29,<br>2016<br>(3 months)<br>(unaudited)<br>\$ | February 28,<br>2017<br>(9 months)<br>(unaudited)<br>\$ | February 29,<br>2016<br>(9 months)<br>(unaudited)<br>\$ |
|--|---|---|---|---|
| <b>CONTINUING OPERATIONS</b>   |   |   |   |   |
| <b>REVENUE</b>   | -   | -   | -   | -   |
| <b>OPERATING EXPENSES</b> (Note 15)                                      |   |   |   |   |
| Selling expenses   | 59,791  | 26,204  | 243,873   | 73,076  |
| Administrative expenses  | 211,702   | 256,620   | 708,026   | 711,272   |
| General operating expenses   | 53,847  | 47,926  | 156,805   | 145,112   |
| Development cost   | 85,789  | 55,968  | 222,276   | 162,670   |
| Financial expenses   | 3,124   | 5,060   | 11,140  | 10,564  |
|  | 414,253   | 391,778   | 1,342,120   | 1,102,694   |
| <b>LOSS BEFORE INCOME TAXES</b>  | (414,253)   | (391,778)   | (1,342,120)   | (1,102,694)   |
| <b>INCOME TAXES</b>  | -   | -   | -   | -   |
| <b>Net loss from continuing operations</b>                               | (414,253)   | (391,778)   | (1,342,120)   | (1,102,694)   |
| <b>Net profit from discontinued operations</b> (Note 4)                  | 1,664   | (43,193)  | 4,904   | 820,929   |
| <b>NET RESULT AND COMPREHENSIVE INCOME</b>                               | (412,589)   | (434,971)   | (1,337,216)   | (281,765)   |
| <b>Basic and diluted net result per share from continuing operations</b> | (0.003)   | (0.003)   | (0.010)   | (0.008)   |
| <b>Basic and diluted net and comprehensive result per share</b>          | (0.003)   | (0.003)   | (0.010)   | (0.002)   |
| <b>WEIGHTED AVERAGE NUMBER OF OUTSTANDING COMMON SHARES</b>              | 135,591,268   | 135,591,268   | 135,591,268   | 135,591,268   |



**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

|  | February 28,<br>2017<br>(3 months)<br>(unaudited) | February 29,<br>2016<br>(3 months)<br>(unaudited) | February 28,<br>2017<br>(9 months)<br>(unaudited) | February 29,<br>2016<br>(9 months)<br>(unaudited) |
|--|---|---|---|---|
|  | \$  | \$  | \$  | \$  |
| <b>OPERATING ACTIVITIES</b>                                      |   |   |   |   |
| Consolidated net and comprehensive income                        | (412,589)   | (434,971)   | (1,337,216)                                       | (281,765)   |
| Net result from discontinued operations                          | 1,664   | (43,193)  | 4,904   | 820,929   |
| <b>Net result from continuing operations</b>                     | <b>(414,253)</b>                                  | <b>(391,778)</b>                                  | <b>(1,342,120)</b>                                | <b>(1,102,694)</b>                                |
| Amortization   | 12,795  | 1,159   | 38,325  | 3,160   |
| Lease inducement   | (4,640)   | 36,801  | (13,923)  | 36,801  |
| Stock-based compensation   | -   | 20,130  | -   | 20,130  |
| <b>Net result from discontinued operations</b>                   | <b>1,664</b>                                      | <b>(43,193)</b>                                   | <b>4,904</b>                                      | <b>820,929</b>                                    |
| Amortization   | -   | -   | -   | 225,313   |
| Loss on disposal of fixed assets                                 | -   | 252   | -   | 252   |
| Gain on disposal of fixed assets                                 | -   | -   | -   | (1,001,440)                                       |
| Provision from loss-making contracts                             | (4,248)   | (3,864)   | (12,022)  | (9,897)   |
|  | (408,682)   | (380,493)   | (1,324,836)                                       | (1,007,446)                                       |
| Net change in non-cash operating working capital items (Note 23) | 417,620   | (650,516)   | 1,062,333   | (449,435)   |
| Cash flows used in operating activities                          | 8,938   | (1,031,009)                                       | (262,503)   | (1,456,881)                                       |
| <b>FINANCING ACTIVITIES</b>                                      |   |   |   |   |
| <b>Continuing operations</b>                                     |   |   |   |   |
| Long-term debt   | -   | 170,000   | -   | 170,000   |
| Repayment short-term debt  | (17,000)  | -   | (34,000)  | -   |
| Repayment of obligations under a finance lease contract          | (1,186)   | (1,103)   | (3,494)   | (2,850)   |
| Cash flows from financing activities                             | (18,186)  | 168,897   | (37,494)  | 167,150   |
| <b>INVESTING ACTIVITIES</b>                                      |   |   |   |   |
| <b>Continuing operations</b>                                     |   |   |   |   |
| Acquisition of fixed assets                                      | -   | (175,501)   | (430)   | (190,976)   |
| Acquisition of intangible assets                                 | -   | -   | (15,000)  | (25,000)  |
| <b>Discontinued operations</b>                                   |   |   |   |   |
| Proceeds from disposal of intangible assets                      | -   | -   | -   | 1,750,000   |
| Transaction fees   | -   | -   | -   | (99,998)  |
| Cash flows from investing activities                             | -   | (175,501)   | (15,430)  | 1,434,026   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                   | <b>(9,248)</b>                                    | <b>(1,037,613)</b>                                | <b>(315,427)</b>                                  | <b>144,295</b>                                    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>            | <b>17,217</b>                                     | <b>1,756,181</b>                                  | <b>323,396</b>                                    | <b>574,273</b>                                    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                  | <b>7,969</b>                                      | <b>718,568</b>                                    | <b>7,969</b>                                      | <b>718,568</b>                                    |

Cash flows used in operating activities include interest expenses of \$7,342 for the nine-month period ended February 28, 2017 and \$2,237 for the three-month period ended February 28, 2017. Cash flows used in operating activities include interest expenses of \$727 for the nine-month period ended February 29, 2016 and \$430 for the three-month period ended February 29, 2016.



**NOTE TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

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**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 preemptive 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 preemptive 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 Toronto 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 April 21, 2017.

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.





**NOTE TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

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**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.



**NOTE TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

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**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:

|                        | <b>Method</b> | <b>Periods</b> |
|------------------------|---------------|----------------|
| 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 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:



**NOTE TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

|                         | <b>Periods</b> |
|-------------------------|----------------|
| 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 a 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.



**NOTE TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

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**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.



**NOTE TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

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**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 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.

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**4. DISCONTINUED OPERATIONS (CONT.)**

|  | February 28,<br>2017<br>(3 months)<br>\$ | February 29,<br>2016<br>(3 months)<br>\$ | February 28,<br>2017<br>(9 months)<br>\$ | February 29,<br>2016<br>(9 months)<br>\$ |
|--|--|--|--|--|
| <b>REVENUE</b>   | -  | -  | -  | -  |
| <b>OPERATING EXPENSES</b>  |  |  |  |  |
| Administrative expenses  | -  | -  | -  | 27,670                                   |
| General operating expenses   | -  | 100                                      | -  | 500                                      |
| Development cost   | -  | -  | -  | 225,312                                  |
| Financial revenues   | (1,664)                                  | 43,093                                   | (4,904)                                  | 15,285                                   |
|  | (1,664)                                  | 43,193                                   | (4,904)                                  | 268,767                                  |
| <b>RESULT FROM DISCONTINUED<br/>ORDINARY OPERATIONS BEFORE<br/>TAXES</b> | 1,664                                    | (43,193)                                 | 4,904                                    | (268,767)                                |
| Income tax payable   | -  | -  | -  | -  |
| <b>RESULT FROM DISCONTINUED<br/>ORDINARY OPERATIONS AFTER<br/>TAXES</b>  | 1,664                                    | (43,193)                                 | 4,904                                    | (268,767)                                |
| Gain on disposal of intangible assets <sup>(1)</sup>                     | -  | -  | -  | 1,089,696                                |
| <b>NET PROFIT FROM DISCONTINUED<br/>OPERATIONS</b>                       | 1,664                                    | (43,193)                                 | 4,904                                    | 820,929                                  |

<sup>(1)</sup> Net of legal fees in the amount of \$ 99,999.

**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 Toronto and a second lease of a multifunction printer. These contracts generated a shortfall of \$4,203 for the period, which will end August 31, 2017.

|  | Total         |
|--|---------------|
|  | \$            |
| Balance as at May 31, 2015             | 30,009        |
| Use                                    | (13,784)      |
| <b>Balance as at May 31, 2016</b>      | <b>16,225</b> |
| Use                                    | (12,022)      |
| <b>Balance as at February 28, 2017</b> | <b>4,203</b>  |

## 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.
- 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.





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

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.

**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.





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**7. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONT.)**

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 flows 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.

**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.



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**8. ACCOUNTS RECEIVABLE**

|   | February 28,<br>2017 | May 31,<br>2016 |
|---|----------------------|-----------------|
|   | \$                   | \$              |
| Contingent consideration receivable <sup>(1)</sup>  | 42,500               | 50,000          |
| Sales tax   | 10,648               | 19,582          |
| Research and development tax credits <sup>(2)</sup> | -                    | 144,643         |
| Other receivables                                   | 36,649               | 38,810          |
| <b>Total</b>  | <b>89,797</b>        | <b>303,035</b>  |

(1) Represents a balance receivable of \$135,388 as part of the transaction with Familiprix Inc. (\$42,500 short term and \$92,888 long-term) as at February 28, 2017 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.

**9. LEASEHOLD IMPROVEMENT ALLOWANCE RECEIVABLE**

According to the lease of the new premises, the lessor allocated an improvement allowance of \$25 per ft<sup>2</sup>, repayable over an initial period of 5 years in the amount of \$8,852 per year (\$7,360 present value). The first payment is due on December 31, 2016. If ZoomMed 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. ZoomMed did not record the allowance for the renewal option.

|  | Total         |
|--|---------------|
|  | \$            |
| Balance as at May 31, 2016             | 36,801        |
| Payments during the period             | (9,586)       |
| <b>Balance as at February 28, 2017</b> | <b>27,215</b> |
| Current portion                        | 7,360         |
| Long-term portion                      | 19,855        |
|  | <b>27,215</b> |



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**10. FIXED ASSETS**

|   | Furniture     | Computer equipment | Telephone system <sup>(1)</sup> | Leasehold improvements | Total          |
|---|---------------|--------------------|---------------------------------|------------------------|----------------|
|   | \$            | \$                 | \$                              | \$                     | \$             |
| <b>Cost</b>                                   |               |                    |                                 |                        |                |
| As at June 1, 2016                            | 55,115        | 54,122             | 25,998                          | 197,348                | 332,583        |
| Acquisitions                                  | -             | 430                | -                               | -                      | 430            |
| <b>As at February 28, 2017</b>                | <b>55,115</b> | <b>54,552</b>      | <b>25,998</b>                   | <b>197,348</b>         | <b>333,013</b> |
| <b>Accumulated amortization</b>               |               |                    |                                 |                        |                |
| As at June 1, 2016                            | 37,561        | 48,406             | 1,300                           | 9,705                  | 96,972         |
| Amortizations                                 | 2,769         | 2,054              | 3,900                           | 29,602                 | 38,325         |
| <b>As at February 28, 2017</b>                | <b>40,330</b> | <b>50,460</b>      | <b>5,200</b>                    | <b>39,307</b>          | <b>135,297</b> |
| <b>Net book value as at February 28, 2017</b> | <b>14,785</b> | <b>4,092</b>       | <b>20,798</b>                   | <b>158,041</b>         | <b>197,716</b> |
|   | Furniture     | Computer equipment | Telephone system <sup>(1)</sup> | Leasehold improvements | Total          |
|   | \$            | \$                 | \$                              | \$                     | \$             |
| <b>Cost</b>                                   |               |                    |                                 |                        |                |
| 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)      |
| <b>As at May 31, 2016</b>                     | <b>55,115</b> | <b>54,122</b>      | <b>25,998</b>                   | <b>197,348</b>         | <b>332,583</b> |
| <b>Accumulated amortization</b>               |               |                    |                                 |                        |                |
| 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)      |
| <b>As at May 31, 2016</b>                     | <b>37,561</b> | <b>48,406</b>      | <b>1,300</b>                    | <b>9,705</b>           | <b>96,972</b>  |
| <b>Net book value as at May 31, 2016</b>      | <b>17,554</b> | <b>5,716</b>       | <b>24,698</b>                   | <b>187,643</b>         | <b>235,611</b> |

<sup>(1)</sup> The telephone system was acquired under a finance lease contract.



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**11. INTANGIBLE ASSETS**

|  | Software | Licenses<br>and rights | Intellectual<br>properties | Development<br>costs | Total       |
|--|----------|------------------------|----------------------------|----------------------|-------------|
|  | \$       | \$                     | \$                         | \$                   | \$          |
| <b>Cost</b>  |          |                        |                            |                      |             |
| As at June 1, 2016                                 | 4,322    | 100,000                | 2,253,934                  | 2,261,549            | 4,619,805   |
| Acquisitions                                       | -        | -                      | -                          | -                    | -           |
| As at February 28, 2017                            | 4,322    | 100,000                | 2,253,934                  | 2,261,549            | 4,619,805   |
| <b>Accumulated Amortization &amp; depreciation</b> |          |                        |                            |                      |             |
| As at June 1, 2016                                 | 4,322    | -                      | 2,253,934                  | 2,261,549            | 4,519,805   |
| Amortizations                                      | -        | -                      | -                          | -                    | -           |
| As at February 28, 2017                            | 4,322    | -                      | 2,253,934                  | 2,261,549            | 4,519,805   |
| <b>Net book value as at February 28, 2017</b>      | -        | 100,000                | -                          | -                    | 100,000     |
|  |          |                        |                            |                      |             |
|  | Software | Licenses<br>and rights | Intellectual<br>properties | Development<br>costs | Total       |
|  | \$       | \$                     | \$                         | \$                   | \$          |
| <b>Cost</b>  |          |                        |                            |                      |             |
| 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   |
| <b>Accumulated Amortization &amp; depreciation</b> |          |                        |                            |                      |             |
| 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   |
| <b>Net book value as at May 31, 2016</b>           | -        | 100,000                | -                          | -                    | 100,000     |

**12. ACCOUNTS PAYABLE**

|  | February 28,<br>2017 | May 31,<br>2016 |
|--|----------------------|-----------------|
|  | \$                   | \$              |
| Accounts payable and accrued liabilities | 320,633              | 179,615         |
| Wages and tax deductions                 | 550,113              | 129,775         |
| <b>Total</b>                             | <b>870,746</b>       | <b>309,390</b>  |



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**13. LONG-TERM DEBT**

On July 14, 2015, ZoomMed 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 March 2016 and is secured by a first ranking moveable hypothec in the amount of \$204,000 and an additional \$40,800 hypothec encumbering ZoomMed universality of present and future goods, property, both tangible and intangible, 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 maturing February 28, 2019.

|  | Total          |
|--|----------------|
|  | \$             |
| Initial amount                         | 170,000        |
| Payments during the period             | -              |
| <b>Balance as at May 31, 2016</b>      | <b>170,000</b> |
| Payments during the period             | (34,000)       |
| <b>Balance as at February 28, 2017</b> | <b>136,000</b> |
| Current portion                        | 68,000         |
| Long-term portion                      | 68,000         |

Payments to be made for the upcoming periods of 12 months are as follows:

|      | \$     |
|------|--------|
| 2018 | 68,000 |
| 2019 | 68,000 |

**14. OBLIGATIONS UNDER A FINANCE LEASE CONTRACT**

ZoomMed 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 capital and interest payments of \$511.

|  | Total         |
|--|---------------|
|  | \$            |
| Initial amount                         | 25,998        |
| Payments during the period             | (3,974)       |
| <b>Balance as at May 31, 2016</b>      | <b>22,024</b> |
| Payments during the period             | (3,494)       |
| <b>Balance as at February 28, 2017</b> | <b>18,530</b> |



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

|  | Total<br>\$   |
|--|---------------|
| Current portion obligations under a finance lease contract   | 4,961         |
| Long-term portion obligations under a finance lease contract | 13,569        |
|  | <b>18,530</b> |

Minimum finance lease payments the upcoming periods of 12 months are as follows:

|  | Minimum finance lease payments |                 | Present value of minimum finance lease payments |                 |
|--|--------------------------------|-----------------|---|-----------------|
|  | February 28,<br>2017           | May 31,<br>2016 | February 28,<br>2017                            | May 31,<br>2016 |
|  | \$                             | \$              | \$  | \$              |
| 2017   | -                              | 6,134           | -   | 4,701           |
| 2018   | 6,134                          | 6,134           | 5,088   | 5,051           |
| 2019   | 6,134                          | 6,134           | 5,359   | 5,427           |
| 2020   | 6,134                          | 6,134           | 5,644   | 5,831           |
| 2021   | 2,557                          | 1,021           | 2,439   | 1,014           |
| Interest included in the minimum payments                    | (2,429)                        | (3,533)         | -   | -               |
| Discounted value of minimum payments under the finance lease | <b>18,530</b>                  | <b>22,024</b>   | <b>18,530</b>                                   | <b>22,024</b>   |

**15. INFORMATION ON OPERATING EXPENSES**

|  | February 28,<br>2017<br>(3 months) | February 29,<br>2016<br>(3 months) | February 28,<br>2017<br>(9 months) | February 29,<br>2016<br>(9 months) |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|  | \$                                 | \$                                 | \$                                 | \$                                 |
| <b>a) Selling expenses :</b>           |                                    |                                    |                                    |                                    |
| Selling expenses                       | 9,541                              | 1,977                              | 99,531                             | 8,599                              |
| Salaries and benefits                  | 47,051                             | 23,937                             | 134,761                            | 63,687                             |
| Amortization of tangible assets        | 3,199                              | 290                                | 9,581                              | 790                                |
|  | <b>59,791</b>                      | <b>26,204</b>                      | <b>243,873</b>                     | <b>73,076</b>                      |
| <b>b) Administrative expenses :</b>    |                                    |                                    |                                    |                                    |
| Administrative expenses                | 83,754                             | 107,886                            | 326,505                            | 343,193                            |
| Salaries and benefits                  | 124,749                            | 128,314                            | 371,940                            | 347,159                            |
| Stock-based compensation               | -                                  | 20,130                             | -                                  | 20,130                             |
| Amortization of tangible assets        | 3,199                              | 290                                | 9,581                              | 790                                |
|  | <b>211,702</b>                     | <b>256,620</b>                     | <b>708,026</b>                     | <b>711,272</b>                     |
| <b>c) General operating expenses :</b> |                                    |                                    |                                    |                                    |
| Salaries and benefits                  | 50,648                             | 47,636                             | 147,224                            | 144,322                            |
| Amortization of tangible assets        | 3,199                              | 290                                | 9,581                              | 790                                |
|  | <b>53,847</b>                      | <b>47,926</b>                      | <b>156,805</b>                     | <b>145,112</b>                     |



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**15. INFORMATION ON OPERATING EXPENSES (CONT.)**

|                                      | February 28,<br>2017<br>(3 months) | February 29,<br>2016<br>(3 months) | February 28,<br>2017<br>(9 months) | February 29,<br>2016<br>(9 months) |
|--------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|                                      | \$                                 | \$                                 | \$                                 | \$                                 |
| <b>d) Development cost :</b>         |                                    |                                    |                                    |                                    |
| Development cost                     | 13,808                             | 10,874                             | 35,921                             | 31,719                             |
| Salaries and benefits                | 68,782                             | 44,804                             | 176,774                            | 130,161                            |
| Amortization of tangible assets      | 3,199                              | 290                                | 9,581                              | 790                                |
|                                      | <u>85,789</u>                      | <u>55,968</u>                      | <u>222,276</u>                     | <u>162,670</u>                     |
| <b>e) Financial expenses :</b>       |                                    |                                    |                                    |                                    |
| Interest and bank charges            | 722                                | 4,482                              | 3,531                              | 10,060                             |
| Interest on long-term debt           | 1,890                              | -                                  | 6,236                              | -                                  |
| Interests on finance lease contracts | 348                                | 430                                | 1,106                              | 727                                |
| Exchange rate variation              | 164                                | 148                                | 267                                | (223)                              |
|                                      | <u>3,124</u>                       | <u>5,060</u>                       | <u>11,140</u>                      | <u>10,564</u>                      |

**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, ZoomMed 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.

As at February 28, 2017, the balance of commitments under leaseholds and operating leases amounts to \$481,776.

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

|                         | 2018           | 2019           | 2020           | 2021           | 2022         |
|-------------------------|----------------|----------------|----------------|----------------|--------------|
|                         | \$             | \$             | \$             | \$             | \$           |
| Leasehold – Head Office | 108,998        | 108,998        | 108,998        | 108,998        | 9,083        |
| Multi-function printers | 10,486         | 10,486         | 10,486         | 5,243          | -            |
|                         | <u>119,484</u> | <u>119,484</u> | <u>119,484</u> | <u>114,241</u> | <u>9,083</u> |

**17. SHARE CAPITAL**

**a) Authorized**

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

**b) Declared**

|  | February 28,<br>2017 | May 31,<br>2016   |
|--|----------------------|-------------------|
|  | \$                   | \$                |
| 135,591,268 common shares as at February 28, 2017 and May 31, 2016 | <u>25,509,437</u>    | <u>25,509,437</u> |



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**17. SHARE CAPITAL (CONT.)**

**c) Transaction during the nine-month period ended February 28, 2017**

No transaction occurred during the nine-month period ended February 28, 2017.

**d) Transactions during fiscal year ended May 31, 2016**

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

**18. STOCK OPTION PLAN**

The shareholders of ZoomMed adopted a resolution approving the “rolling” stock option plan of 10% at the annual and special meeting of shareholders held November 29, 2016. Under the plan terms, the exercise price of the options will be determined by the Directors of the Company subject to other restrictions described in the plan and some requirements of the TSX Venture Exchange. The maximum period for which an option can be exercise is limited to five years and the exercise price must be paid in full before the issuance of the shares.

The following table summarizes the changes in the stock option plan position for the nine-month period ended February 28, 2017 and the fiscal year ended May 31, 2016:

|  | Options           | Average<br>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                      |
| <b>Balance as at May 31, 2016</b>      | <b>12,515,000</b> | <b>0.09</b>               |
| Cancelled                              | (1,830,000)       | 0.15                      |
| <b>Balance as at February 28, 2017</b> | <b>10,685,000</b> | <b>0.08</b>               |

**Transaction during the nine-month period ended February 28, 2017**

No transaction occurred during the nine-month period ended February 28, 2017.

**Transactions during fiscal year ended May 31, 2016**

In January 2016, ZoomMed 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        |





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**18. STOCK OPTION PLAN (CONT.)**

The non-recurrent 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 option plan as at February 28, 2017 and May 31, 2016:

**a) As at February 28, 2017**

| Outstanding options |  |                                 |                             | Exercisable options |                                 |
|---------------------|--|---------------------------------|-----------------------------|---------------------|---------------------------------|
| Number              | Weighted average remaining contractual life (months) | Weighted average exercise price | Weighted average fair value | Number              | Weighted average exercise price |
|                     |  | \$                              | \$                          |                     | \$                              |
| 2,485,000           | 5  | 0.10                            | 0.04                        | 2,485,000           | 0.10                            |
| 7,100,000           | 35   | 0.05                            | 0.01                        | 7,100,000           | 0.05                            |
| 1,100,000           | 47   | 0.21                            | 0.02                        | 1,100,000           | 0.21                            |
| 10,685,000          | 29   | 0.08                            | 0.02                        | 10,685,000          | 0.08                            |

**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**

|  | February 28, 2017 |                | May 31, 2016 |                |
|--|-------------------|----------------|--------------|----------------|
|  | Fair value        | Carrying value | Fair value   | Carrying value |
|  | \$                | \$             | \$           | \$             |
| <b>Financial assets</b>                    |                   |                |              |                |
| Cash and cash equivalents                  | 7,969             | 7,969          | 323,396      | 323,396        |
| Loans receivables                          | 160,000           | 160,000        | 167,500      | 167,500        |
| <b>Financial liabilities</b>               |                   |                |              |                |
| Obligations under a finance lease contract | 18,530            | 18,530         | 22,024       | 22,024         |
| Long-term debt                             | 136,000           | 136,000        | 170,000      | 170,000        |
| Other liabilities                          | 253,286           | 253,286        | 98,903       | 98,903         |



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**19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT.)**

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.

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 February 28, 2017 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, as 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 February 28, 2017, the Company has the following balances in converted U.S. dollars: cash: \$495 (\$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 flows matching of assets and liabilities.



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**20. RISK AND UNCERTAINTIES (CONT.)**

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.

**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 long-term debt and its obligation under a finance lease contract.

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.

**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 20 for more details.

The Company defines its capital as the sum of its shareholders equity. The shareholders equity of (\$844,267) as at February 28, 2017 and \$492,949 as at May 31, 2016, includes share capital, contributed surplus and deficit. The capital decrease of \$1,337,216 during the nine-month period ended February 28, 2017 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 the nine-month period ended February 28, 2017, the key management compensation amounted to \$307,697 (including a sum of \$200,003 unpaid as at February 28, 2017) and \$307,697 for the nine-month period ended February 29, 2016.

**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, 2017, an amount of \$1,381 (\$88,335 for the nine-month period ended February 29, 2016) was charged by the law firm. An amount of \$9,191 is included in the accounts payable and the accrued liabilities as at February 28, 2017 (\$7,603 as at May 31, 2016).

**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-months periods ended February 28, 2017 and February 29, 2016, the Company has recorded a provision for receivable due from related parties. 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**

|                  | February 28,<br>2017<br>(3 months) | February 29,<br>2016<br>(3 months) | February 28,<br>2017<br>(9 months) | February 29,<br>2016<br>(9 months) |
|------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|                  | \$                                 | \$                                 | \$                                 | \$                                 |
| Receivables      | 68,610                             | (123,512)                          | 217,920                            | (256,720)                          |
| Prepaid expenses | (9,888)                            | (206)                              | (6,755)                            | (1,569)                            |
| Payables         | 358,898                            | (526,798)                          | 851,168                            | (191,146)                          |
| Total            | 417,620                            | (650,516)                          | 1,062,333                          | (449,435)                          |

**24. SUBSEQUENT EVENTS AFTER CLOSING DATE**

**Financing**

On March 14, 2017, the Company entered into a \$500,000 loan agreement with Persistence Capital Partners II, L.P. The loan bears interest at 12 % per annum payable on a monthly basis and a set-up fee of \$25,000. The loan will be repayable under certain conditions on March 31, 2018.