



Management Discussion and Analysis (MD&A) of Financial  
Condition and Results of Operations

For the Three and Six Months Ended June 30, 2011 and 2010

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## **1.0 INTRODUCTION**

The following Management Discussion and Analysis of QHR Technologies Inc. (“QHR” or “the Company”) as of August 18, 2011 should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three-month period ended June 30, 2011, and related notes included therein, which has been prepared in accordance with International Financial Reporting Standards (“IFRS”). All amounts following are expressed in Canadian Dollars.

Additional information relating to the Company including the Company’s most recent Annual Financial Statements can be found at [www.sedar.com](http://www.sedar.com).

### Forward Looking Statements

The following discussion and analysis of the financial conditions and results of operations contains forward-looking statements concerning anticipated developments in the Company’s operations in future periods, the adequacy of the Company’s financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as “expects,” “anticipates,” “believes,” “intends,” “estimates,” “predicts,” “potential,” “targeted,” “plans,” “possible” and similar expressions, or statements that events, conditions or results “will,” “may,” “could” or “should” occur or be achieved. These forward-looking statements include, without limitation, statements about the Company’s market opportunities, strategies, competition, expected activities and expenditures as the Company pursues its business plan, the adequacy of the Company’s available cash resources and other statements about future events or results. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, such as business and economic risks and uncertainties. The Company’s forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Consequently, all forward-looking statements made in this discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. Some of these risks, uncertainties and other factors are described herein under the heading “Risks and Uncertainties. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

## 2.0 BUSINESS OVERVIEW

### 2.1 Overview of the Business

QHR is a leading provider of software solutions targeted for the healthcare industry in Canada, federal and provincial funded entities which provide healthcare, wellness, social services, public safety and other related government funded agencies. QHR's solutions are segmented into three operations to take advantage of distinct market opportunities, namely the Enterprise Management Software ("EMS") applications, marketed under the Quadrant™ brand, *Electronic Medical Records* ("EMR") software, marketed under the Accuro® EMR brand and the *Hosting* division which carries on business as Cloudwerx.

The *Enterprise Management Software* ("EMS") applications, marketed under the Quadrant™ brand is comprised of two product offerings, namely Workforce Management Software and Financial Management Software. The Workforce Management Software consists of integrated applications, including payroll, staff scheduling, human resources. Quadrant provides human resource management solutions for complex healthcare and social services environments. The Financial Management Software provides customized financial software built on Microsoft's Dynamics GP (formerly Great Plains) platform. Together, these products enable QHR to offer comprehensive enterprise management software solutions to the healthcare and social services market.

The *Electronic Medical Records* ("EMR") software, is marketed under the Accuro® EMR brand. This comprehensive suite of medical software modules is designed to improve the quality of the operational work environment of family physicians, medical specialists and surgeons. Accuro delivers productivity gains and cost savings through computerized medical records and conforms to the stringent requirements of EMR protocols that have been established by Federal and Provincial governments. The EMR division also supports and maintains legacy-based EMR systems from acquired companies. The Company provides customers on these legacy systems with a cost-effective upgrade path to the newer and more advanced Accuro system.

The *Hosting* division provides integrated data hosting services to both its EMS and EMR customers who prefer to access the software solution through an Application Service Provider ("ASP") environment. Some provincial programs give preference to, and/or mandate a hosted environment to meet the provincial EMR subsidy program requirements for physicians. Accordingly, The Company has found it necessary to build out its own data center infrastructure in conjunction with third party co location centers to accommodate the client needs on both their software application and technical infrastructure. Cloud computing is a growing business and for our clients it is necessary to make this upfront investment to offer a complete offering of managed services.

### 2.2 Company Products and Services

The EMS division provides software to organizations in the healthcare and social services sectors, targeting medium to large organizations. This is a growing market based on the demographics of an ageing population.

Quadrant products are differentiated from competitors' products in ways that are meaningful to Canadian healthcare and public safety industry customers. The Workforce Management Software has unique capabilities to meet the employee scheduling and payroll needs of complex work environments and the Financial Management Software is the only Microsoft Dynamics GP financial software that is customized to the Canadian healthcare market. The Company is also recognized for its outstanding product support to customers.

The Company's strategy for this division is to:

1. Leverage its leadership position in the public sector, a position that has been strengthened with the acquisition of the financial software division ("Financials Division") of Momentum Healthware, and target private healthcare and social services organizations;
2. Cross-sell Workforce Management Software to Financial Management Software customers, and vice-versa, and expand sales within the entire customer base as the growth of these customers requires further application of the Company's products; and
3. Develop best of breed, stand-alone modules of its current products that can interface with other companies' products, thus broadening market reach.

*Electronic Medical Records division (EMR)*

The EMR division operates in a rapidly changing marketplace, with increased adoption of EMR systems in Canadian physician offices promoted and funded by the Federal and Provincial governments. The Federal Government's objective, through Canada Health Info way, plans to have Electronic Health Records in place for most Canadians by 2016. The division's flagship product, Accuro EMR, is developed using the latest technology and offers industry-leading functionality, workflow and conforms to federal and provincial standards. The product is built on a flexible platform which allows ongoing product development to respond to the evolving requirements of the EMR marketplace. The division also provides support and maintenance of legacy EMR products and practice management systems from acquired companies for physicians who have not yet upgraded to Accuro.

Currently there are approximately 69,000 physicians practicing in Canada of which 51% are specialist and 49% are general practitioners. Of the total market, only about 25% of all physicians in Canada currently utilize an EMR product representing good market growth for the Company.

The Company's strategy has been to selectively acquire legacy-based EMR and practice management systems, which adds to the Company's recurring revenue and increases its customer base. Customers benefit as the Company's support structure and resources are more substantial than the acquired software companies had as standalone businesses. Over time, the Company's strategy is to selectively implement unique functionality from the acquired systems to the Accuro product, and to develop data conversion tools to allow customers to upgrade to the Accuro system without losing their historic patient data. This provides customers with an upgrade path to newer technology that is cost-effective for both our customers and QHR, and it helps ensure that customers remain on QHR systems over the long term.

The EMR division's goal is to be the leading provider of EMR systems across Canada. It has established a strong market position in B.C., Alberta, Saskatchewan and Manitoba. In 2010 the Company expanded into Ontario, strengthened by its Clinicare acquisition and more importantly, the OntarioMD CMS 3.0 funding program certification completed on November 29, 2010 which replaces the Clinicare product funding for the Accuro product funding as well as providing opportunities for new OntarioMD funded sales in Ontario.

Currently OntarioMD is evaluating 21 EMR products for compliance with CMS 4.0 which sets a new standard for vendors to be eligible for funding. This new technical standard may be a barrier to entry for new competitors entering the market and may eliminate current competitors from participating in the future program. QHR feels confident that it will meet and or exceed all the requirements to be selected as CMS 4.0 certified.

Overall, the Company's strategy for this division is to:

1. Gain market share through both organic growth and acquisitions;
2. Leverage its position in existing and expansion markets, and
3. Become the leading national provider of EMR products.

*Hosting division*

In addition to providing industry leading EMS and EMR software and services solutions, the Company has enhanced its competitive position through the formation of its hosting division, namely Cloudwerx. Cloudwerx simplifies the management of enterprise applications through a fully configurable set of application hosting services and customer support. With state-of-the-art capabilities in hosting small to large scale enterprise application deployments, specifically focused on the Electronic Medical Record and Enterprise Management Solution markets, Cloudwerx helps clients increase their ROI on investment by reducing the amount of up-front cost required on new enterprise software purchases, while helping to improve deployment timelines.

## 2.3 Business Model

### *Recurring Revenue*

The Company's business model is to provide technologically advanced business software solutions and build long-term relationships with customers. The revenue model is based upon providing professional services to customers to implement those business solutions and thereafter the Company enjoys ongoing recurring revenues from support and maintenance contracts as well as perpetual licensing fees as long as customers continue to use the Company's products.

### *Enterprise Management Solutions division*

Quadrant™ contracts are typically in the range of \$100,000 to \$1,000,000 and consist of three Elements, namely an upfront purchase of software licenses, professional services fees to implement the software at a client's site over a 3-12 month period and annual, recurring support and maintenance fees.

Once installed, customers continue using the Company's software for many years because of the high cost of changing vendors. This, added to the Company's reputation for strong customer service, has provided the EMS division with a customer retention and annual renewal rate exceeding 95%.

Revenue from software licensing is recognized after completion of the initial support and maintenance period. Professional fees to implement the software are recognized as services are rendered and annual maintenance and support revenue is paid in advance and recognized on a straight-line basis throughout the year. Annual maintenance and support payments received in advance are recorded as deferred revenue on the balance sheet, until earned.

### *Electronic Medical Records division*

Accuro® EMR systems are sold based on a monthly license and services agreement with monthly recurring revenues dependent on the number of physicians and other health professionals using the software at the customer site. The monthly fee is a blended payment for the use of the software, on-going enhancements and technical support. Revenue is recognized on a monthly basis. Revenue from fees to cover the cost of training and implementation is recognized when the services are provided and completed. Customers continue paying the monthly license and service fee for as long as they use the software. Once installed, customers are reluctant to change systems due to the quality of the Accuro system, plus the deterrents of the investment in staff training and challenges associated with converting historic patient data to new systems.

The Company's reputation for strong customer service has provided the EMR division with a customer retention rate also exceeding 95%. The division's sales and marketing efforts are focused on selling Accuro to new customers and converting acquired customers who are on a competitive product which will not be supported indefinitely. Existing customers of its acquired EMR and patient management systems, such as Clinicare, are charged recurring monthly or annual fees for software maintenance and support. Annual maintenance and support payments are paid in advance and are recorded as deferred revenue on the balance sheet until recognized monthly on a straight-line basis throughout the year.

### *Hosting division*

The Hosting division is dedicated to enhancing our EMR solution by providing data hosting, data storage services and application hosting solutions to the healthcare and other social services sectors. QHR brings together the most experienced ASP hosting and servicing teams and facilities to provide best-in class service to our clients across Canada. We work closely with our customers to tune their environments for optimum performance across their application needs, and provide a managed storage services environment through state-of-the-art facilities instead of local installs.

The division provides hosting services to EMR customers, including application hosting, technical support, off-site data storage and business continuation services. Customers are charged an initial fee for implementation and set-up followed by a monthly recurring subscription fee for maintenance and support of the hosting solution. In addition, the division may resell hardware in conjunction with the software implementation to facilitate optimal system performance. Revenue from these services and the associated hardware is recognized as they are delivered.

## 3.0 2011 QUARTERLY REVIEW

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises in Canada effective January 1, 2011. The unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2011 are prepared under IFRS. Section 5 includes the significant accounting policies that we adopted under and in accordance with the transition rules; we have retroactively applied IFRS to our comparative data.

### 3.1 Selected Financial Information

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
		(Section 5)		(Section 5)
<b>REVENUE</b>	\$ 5,230,505	\$ 5,092,462	\$ 11,712,406	\$ 9,754,408
<b>OPERATING EXPENSES</b>				
Cost of goods sold	422,396	546,061	891,412	1,027,923
Service costs	2,435,606	2,174,863	4,864,576	4,269,922
Selling and administrative expenses	1,761,960	1,436,156	3,919,710	3,280,266
	4,619,962	4,157,080	9,675,698	8,578,111
Earnings before the following items <sup>(1)</sup>	610,543	935,382	2,036,708	1,176,297
Stock-based compensation expense	37,622	45,083	75,728	54,647
Amortization of property and equipment	124,178	191,584	258,047	318,399
Amortization of intangible assets	293,603	286,480	584,596	561,617
Interest expense	24,044	127,576	54,275	276,866
Loss on foreign exchange	483	2,256	5,332	7,343
	479,930	652,979	977,978	1,218,872
<b>Earnings (loss) before income taxes</b>	130,613	282,403	1,058,730	(42,575)
Income taxes				
Current (recovery)	(50,373)	-	(257,064)	-
Deferred	68,000	-	226,000	-
	17,627	-	(31,064)	-
<b>Net earnings (loss) and comprehensive income</b>	\$ 112,986	\$ 282,403	\$ 1,089,794	\$ (42,575)
Basic earnings (loss) per share	\$ 0.00	\$ 0.01	\$ 0.03	\$ 0.00
Diluted earnings (loss) per share	\$ 0.00	\$ 0.01	\$ 0.03	\$ 0.00
Basic weighted average number of shares outstanding	42,790,621	29,886,965	42,753,936	29,287,480
Diluted weighted average number of shares outstanding	43,146,750	30,621,330	43,126,103	30,043,806

(1) Earnings before interest, amortization, stock-based compensation, foreign exchange and taxes are a non-IFRS measure.

	June 30, 2011	June 30, 2010	Change	Percent
Current assets	\$ 11,439,887	\$ 4,992,411	\$ 6,447,476	129%
Long-term assets	14,026,344	12,917,151	1,109,193	9%
Current liabilities	3,712,604	4,640,274	(927,670)	(20%)
Long-term liabilities	4,647,478	5,945,919	(1,298,441)	(22%)
Shareholders' equity	17,106,149	7,323,369	9,782,780	134%

### 3.2 Second Quarter Highlights

The following are second quarter highlights:

- The EMS division’s revenue continues to increase upward compared to the same three month period last year. The EMS division continues to maximize its sales to medium to large sized customers and ensures an above average retention rate to guarantee ongoing support payments for our integrated software suite.
- Revenue for the 6 months ended June 30, 2011 were \$6,638,789 compared to \$5,043,106 for the same period last year, an increase of \$1,595,683 or 32%. Whereas operating costs over the same period were only up 4%.
- The EMR division is ramping up its product development, delivery and support capabilities through the implementation of a scalable delivery process and a product planning framework to capitalize on the continued growth in the EMR marketplace.
- The Hosting division continues to invest in providing best-in-class platforms and services to enhance the delivery and performance of our EMR solutions.

### 3.3 Results of Operations

The Company has three reportable segments. The Enterprise Management Software (“EMS”) division specializes in Workforce Management Software and Financial Management Software targeted at medium to large healthcare and social services organizations, the Electronic Medical Records (“EMR”) division which provides applications for use in physicians’ medical offices, and the Cloudwerx Data Solutions (“Hosting”) division which provides ASP hosting, data backup services and other technology products and services to EMR and other clients. The accounting policies of the segments are the same as those described in the summary of significant accounting policies and are consistent with previous periods. Since the year ended December 31, 2010: there have not been any changes in the basis of segmentation or basis of measurement of segment profit or loss. Furthermore, there have not been any significant changes in the total assets attributable to each segment.

<b>3 months ending June 30, 2011</b>	<b>EMS</b>	<b>EMR</b>	<b>Hosting</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 2,633,575	\$ 2,128,023	\$ 467,917	\$ 990	\$ 5,230,505
Operating expenses	1,716,298	1,496,963	530,051	876,650	4,619,962
Earnings before the undernoted	917,277	631,060	(62,134)	(875,660)	610,543
Stock-based compensation	19,779	15,027	2,816	-	37,622
Amortization of property and equipment	37,328	25,319	61,531	-	124,178
Amortization of intangible assets	104,069	185,134	4,400	-	293,603
Interest expense	8,611	12,082	3,351	-	24,044
(Gain) loss on exchange	526	(43)	-	-	483
Earnings (loss) before income taxes	746,964	393,541	(134,232)	(875,660)	130,613
Income taxes					17,627
Net earnings					\$ 112,986

<b>3 months ending June 30, 2010</b>	<b>EMS</b>	<b>EMR</b>	<b>Hosting</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 2,596,561	\$ 2,033,321	\$ 462,580	\$ -	\$ 5,092,462
Operating expenses	1,377,517	1,637,934	469,483	672,146	4,157,080
Earnings before the undernoted	1,219,044	395,387	(6,903)	(672,146)	935,382
Stock-based compensation	35,336	5,080	4,667	-	45,083
Amortization of property and equipment	55,020	54,646	81,918	-	191,584
Amortization of intangible assets	104,964	179,317	2,199	-	286,480
Interest expense	37,588	86,398	3,590	-	127,576
Gain (loss) on foreign exchange	(337)	2,441	152	-	2,256
Earnings (loss) before income taxes	986,473	67,505	(99,429)	(672,146)	282,403
Income taxes					-
Net earnings					\$ 282,403

**QHR TECHNOLOGIES INC.**  
**MANAGEMENT DISCUSSION & ANALYSIS**

<b>6 months ending June 30, 2011</b>	<b>EMS</b>	<b>EMR</b>	<b>Hosting</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 6,638,789	\$ 3,972,831	\$ 1,099,796	\$ 990	\$ 11,712,406
Operating expenses	3,738,486	2,876,994	1,126,407	1,933,811	9,675,698
Earnings before the undernoted	2,900,303	1,095,837	(26,611)	(1,932,821)	2,036,708
Stock-based compensation	43,204	27,269	5,255	-	75,728
Amortization of property and equipment	77,680	56,627	123,740	-	258,047
Amortization of intangible assets	209,929	370,267	4,400	-	584,596
Interest expense	19,212	27,626	7,437	-	54,275
Gain (loss) on foreign exchange	5,241	94	(3)	-	5,332
Earnings (loss) before income taxes	2,545,037	613,954	(167,440)	(1,932,821)	1,058,730
Income tax recovery, net					(31,064)
Net earnings					\$ 1,089,794

<b>6 months ending June 30, 2010</b>	<b>EMS</b>	<b>EMR</b>	<b>Hosting</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 5,043,106	\$ 3,857,117	\$ 854,185	\$ -	\$ 9,754,408
Operating expenses	3,608,504	2,605,435	1,011,296	1,352,876	8,578,111
Earnings before the undernoted	1,434,602	1,251,682	(157,111)	(1,352,876)	1,176,297
Stock-based compensation	42,832	6,158	5,657	-	54,647
Amortization of property and equipment	110,498	111,592	96,309	-	318,399
Amortization of intangible assets	209,929	347,289	4,399	-	561,617
Interest expense	65,299	203,114	8,453	-	276,866
Loss on foreign exchange	(337)	7,246	434	-	7,343
Earnings (loss) before income taxes	1,006,381	576,283	(272,363)	(1,352,876)	(42,575)
Income taxes					-
Net loss					\$ (42,575)

*Revenues*

The Company recorded \$5,230,505 in revenue for the three months ending June 30, 2011 compared to \$5,092,462 for the three months ending June 30, 2010 an increase of 3% and \$11,712,406 for the six month period ending June 30, 2011 compared to \$9,754,408 for the period ending June 30, 2010 an increase of 20%.

The EMS division revenue for the second quarter was \$2,633,575 compared to \$2,596,561 for the same period last year an increase of 1%. This increase is consistent with the financial budget for the period and supported by a large percent of recurring revenue.

The EMR division revenue for the second quarter was \$2,128,023 compared to \$2,033,321 for the same period last year an increase of 5%. This increase was due to the recurring revenue from our Accuro® EMR systems with some continued organic growth in our key market areas.

The Hosting division revenue for the second quarter was \$467,917 compared to \$462,580 for the same period last year, an increase of 1%.

*Operating Expenses*

Operating expenses including cost of goods sold were \$4,619,962 for the three months ending June 30, 2011 compared to \$4,157,080 for the same period in 2010, an increase of 11%. The increase in operating expenses reflects an increase in staffing costs in the EMS division associated with new licensing deals announced in the first quarter. Furthermore, an increase in costs associated with the Hosting division which reflects the companies continued investment in ramping up this division and \$203,514 increase in corporate costs associated with building out the executive and corporate team.

*Other Expenses*

Other expenses including stock-based compensation, amortization, interest and foreign exchange were \$479,930 for the three months ending June 30, 2011 compared to \$652,979 for the same period in 2010, a decrease of 27%. The decrease in these other expenses is largely due to a reduction of interest costs from eliminated long-term debt.

*Net Earnings*

Income before stock-based compensation, amortization, interest and foreign exchange for the three months ended June 30, 2011 were \$610,543 compared to \$935,382 for the same period in 2010. Income before stock-based compensation, amortization, interest and foreign exchange for the six months ended June 30, 2011 were \$2,036,708 compared to \$1,176,297 for the same period last year an increase of \$860,411 or 73%. The net earnings for the period ended were \$112,986 compared to earnings of \$282,403 in 2010, a decrease of \$169,417 or 60%. The decrease in earnings is attributed to an increase in corporate expenses, largely as a result of IFRS consulting fees, and increase in corporate staffing levels and other professional services.

**3.4 Summary of Quarterly Results**

- Revenue for the quarter ending June 30, 2011, totaled \$5,230,505, 3% higher than the \$5,092,462 reported in the same period for 2010.
- Operating expenses were \$4,619,962 in the second quarter compared to \$4,157,080 for the same period in 2010. The increase in operating expenses is largely attributed to staffing increases in both the EMS and EMR divisions. The EMR division as entered the Ontario market and is building both a sales and support organization to take advantage of growth opportunities in this new market.
- Earnings before stock based compensation expense, amortization, interest expense and foreign exchange was \$130,613 in the second quarter compared to \$282,403 compared to the same period in 2010.
- Net earnings and comprehensive income was \$112,986 in the second quarter compared to \$282,403 in the same period in 2010.
- As at June 30, 2011 earnings per share (basic & diluted) were \$0.00 compared to \$0.01 for the same period in 2010.
- As at June 30, 2011 the Company had positive working capital<sup>(1)</sup> totaling \$7,723,487 compared to a working capital of \$352,137 as at June 30, 2010. The working capital increase is due to increased earnings and proceeds from share issuances.

(1) The Company uses working capital changes as a supplemental non-IFRS financial measure in its evaluation of liquidity. Management believes monitoring working capital items assists in assessing the efficiency of allocation of short term financial resources. Working Capital is calculated by subtracting current liabilities from current assets excluding deferred revenue.

Quarterly Financial Data	Three months ended			
	Mar 31	Jun 30	Sept 30	Dec 31
<b>2011</b>				
Revenue	\$ 6,481,901	\$ 5,230,505		
Net earnings and comprehensive income	976,808	112,986		
Net earnings per share – basic	0.02	0.00		
Net earnings per share – diluted	0.02	0.00		
Weighted average common shares outstanding				
Basic	42,903,510	42,790,621		
Diluted	43,780,767	43,146,750		
<b>2010</b>				
Revenue	\$ 4,661,946	\$ 5,092,462	\$ 4,645,807	\$ 4,670,685
Net (loss) earnings and comprehensive income	(324,978)	282,403	(104,253)	1,128,984 <sup>(2)</sup>
Net earnings per share – basic	(0.01)	0.01	0.00	0.00
Net earnings per share – diluted	(0.01)	0.01	0.00	0.00
Weighted average common shares outstanding				
Basic	28,235,953	29,886,965	30,259,774	30,109,936
Diluted	29,123,833	30,621,330	30,987,648	30,682,360
<b>2009</b>				
Revenue	\$ 2,670,714	\$ 3,749,243	\$ 4,189,271	\$ 3,213,766
Net (loss) earnings and comprehensive income	(206,983)	655,812	329,887	575,521
Net earnings per share – basic	(0.01)	0.03	0.01	0.02
Net earnings per share – diluted	(0.01)	0.03	0.01	0.02
Weighted average common shares outstanding				
Basic	22,662,984	26,106,259	24,512,973	24,512,973
Diluted	22,662,984	26,103,259	25,267,940	25,267,940

(2) Amount reflects an income tax recovery recognized in the 4<sup>th</sup> quarter of 2010 in the amount of \$1,257,000. We have restated our 2010 comparative data in accordance with IFRS. We are not required to apply IFRS to periods prior to 2010. Our 2009 comparative data was prepared in accordance with Canadian GAAP.

### *Economic Outlook and Company Strategy*

Management believes that 2011 will continue to present challenges to most Canadian businesses. Notwithstanding these challenges, healthcare is a steady and growing market and recent new contracts already announced in Q1 and Q2, 2011 indicates continued growth opportunities for the Company.

- Total spending in healthcare in Canada was expected to reach \$192 billion in 2010. The Healthcare sector continues to grow based on demographic changes in Canada, and represented approximately 11.7% of Canadian GDP,
- The Company's customers, being regional health districts, hospitals, long-term care facilities, social support agencies, physicians' offices and public safety are not usually impacted by the business cycle;
- The Company's products, such as accounting and payroll, are mission critical to the running of those enterprises,
- Federal and Provincial Governments are accelerating investment in information technology infrastructure creating more demand for the Company's products, and
- There has been no evidence of the provinces retracting funding programs for physicians who are migrating to EMR products.

Management remains focused on implementing a business model which will serve to (i) add a recurring revenue stream by offering a range of services, (ii) broaden the Company's portfolio of products and services, (iii) actively recruit and cultivate reseller channel partners, and (iv) diversify the base of customers.

QHR expects to achieve continued growth over the next year based on the Company's recent acquisitions, strong organic growth and potential expansion into new markets. The Company enjoys strong cash flow due to its recurring revenue model, and will continue to invest in product development as well as continually evaluate strategic acquisitions. The Company also has raised equity capital to support operational growth and partially fund acquisitions, and expects to continue to do so in the future provided that market conditions remain favourable.

### 3.5 Liquidity and Capital Resources

	<b>June 30, 2011</b>	June 30, 2010
Cash on hand	\$ 6,504,269	\$ 344,813
Working capital surplus	7,723,487	352,137
Shareholders' equity	17,106,149	7,345,817

The Company ended the period with cash on hand of \$6,504,269 compared to \$344,813 compared to the same period in 2010. The Company had a working capital surplus of \$7,723,487 at June 30, 2011. This surplus is a \$7,375,146 improvement over the working capital of \$352,137 at June 30, 2010.

#### *Operating Activities*

For the three month period ended June 30, 2011, operating activities resulted in net cash inflows of \$1,160,339 compared to net cash inflows of \$599,834 in 2010. The six month period ended June 30, 2011, operating activities resulted in net cash inflows of \$2,390,989 compared to net cash inflows of \$1,454,905 in 2010. The increase is primarily due to the increase in earnings.

#### *Investing Activities*

For the three month period ended June 30, 2011, the Company made net investments of \$120,396 compared to \$320,031 in 2010. The six month period ended June 30, 2011, the Company made net investments of \$275,935 compared to \$525,118 in 2010. Investments were primarily related to decreased capital and intangible asset acquisitions.

#### *Financing Activities*

For the three month period ended June 30, 2011, the Company used cash in net financing activities of \$127,803, compared to \$614,964 in 2010. The six month period ended June 30, 2011, the Company used cash in net financing activities of \$232,595 compared to \$1,622,583 in 2010. The decrease in cash used for financing activities was the

result of the retirement of the debt associated with acquisitions made during 2009 and proceeds from share issuances.

## **4.0 FINANCIAL INSTRUMENTS AND RISK EXPOSURES**

The Company's financial assets include cash and cash equivalents, short term investments, and trade and other receivables. The carrying value of the Company's financial assets is considered to be a reasonable approximation of fair value due to their immediate or short term maturity, or their ability for liquidation at comparable amounts.

### Credit Risk

Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet its obligations under a contract. This risk primarily arises from the Company's receivables from customers.

The Company's exposure to credit risk is dependent upon the characteristics of each customer. Each customer is assessed for credit worthiness, using third party credit scores and through direct monitoring of their financial well-being on a continual basis. In some cases, where customers fail to meet the Company's credit worthiness benchmark, the Company may choose to transact with the customer on a prepayment basis.

The Company does not have credit insurance or other financial instruments to mitigate its credit risk as management has determined that the exposure is minimal due to the composition of its customer base.

The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. Management provides for bad debts by reviewing all specific customer accounts and trends and sets aside a specific amount towards the allowance account based on this analysis. The amount reserved is based on the Company's historical default experience direct knowledge of customer credit worthiness, and payment trends. Customer aging is reviewed monthly by management to ensure consistency with best practices. At any time throughout the year, if the Company determines that the financial condition of any of its customers has deteriorated; increases in the allowance may be made. Pursuant to their respective terms, net accounts receivable was aged as follows as at June 30, 2011 and December 31, 2010:

	<b>June 30, 2011</b>	December 31, 2010
Current	\$ 2,319,055	\$ 1,913,378
31-60 days	417,580	653,401
61-90 days	337,006	11,865
Greater than 90 days	1,182,336	382,626
Allowance for doubtful accounts	(102,296)	(127,073)
	<b>\$ 4,153,681</b>	<b>\$ 2,834,197</b>

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

As at June 30, 2011, the Company had cash of \$6,504,269 and accounts receivables of \$4,149,885 for a total of \$10,654,154 which will cover its short-term financial obligations from its trade and other payables of \$3,245,715, promissory note of \$83,495 and capital lease obligations of \$786,958, which total \$4,116,168. The liquidity and maturity timing of these assets are adequate for the settlement of the Company's short-term financial obligations.

	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Capital lease obligations	\$ 383,394	\$ 403,564	\$ -	\$ -	\$ 786,958
Promissory note payable	83,495	-	-	-	83,495
Trade and other payables	3,245,715	-	-	-	3,245,715
<b>Total</b>	<b>\$ 3,712,604</b>	<b>\$ 403,564</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,116,168</b>

## 5.0 CONVERSION TO IFRS

### Transition to IFRS

#### a) Business Combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business Combinations* retrospectively to business combinations before the date of transition to IFRS. The Company has elected to use this election and will apply IFRS 3 to business combinations that may occur on or after January 1, 2010.

#### b) Fair Value or Revaluation as Deemed Cost

IFRS 1 allows a first-time adopter to elect that the deemed cost of an item of property and equipment is the item's fair value as at January 1, 2010, or it is a revaluation amount under previous Generally Accepted Accounting Principles (GAAP) that is broadly comparable to fair value.

The Company has elected to adopt the optional election under IFRS 1 and therefore re-stated certain property and equipment as at January 1, 2010 to their fair value. Because of the adoption of this election, depreciation is now based on the deemed cost starting from January 1, 2010, the date from which the Company established the fair value measurement.

#### (c) Share-Based Payments

IFRS 1 encourages, but does not require, first time adopters to apply IFRS 2, *Share-Based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected to take advantage of the exemption and not apply IFRS 2 to awards that vested prior to January 1, 2010.

IFRS 1 also outlines specific guidance that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

#### d) Estimates

According to IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. This exemption is to prevent an entity from adjusting previously made accounting estimates for the benefit of hindsight. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations and statement of cash flows. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP Consolidated Balance Sheets, Consolidated Statement of Earnings, Deficit, and Comprehensive Income, and Consolidated Statements of Cash Flows as at and for the quarter ended June 30, 2011 and the period ended December 31, 2010 have been reconciled to IFRS, with the resulting differences explained in the following section:

#### (i) Property and equipment

##### Under IFRS:

- Each class of property and equipment may be carried either on the cost basis (costs less accumulated depreciation and any accumulated impairment losses), or at revalued amounts (fair value), less depreciation. The Company has chosen to account for property and equipment under the cost basis.
- Annual depreciation is based on an allocation of the cost of an asset less its residual value over the useful life of the asset, including any idle period.

- Estimated residual value is the amount the entity estimates that it would receive currently for the asset if it were already of the age and in the condition expected at the end of its useful life, and is therefore not increased for changes in prices.
- In assessing for potential impairment of assets, IFRS neither requires nor prescribes discounting. The impairment is the amount by which the carrying value exceeds the recoverable amount. The recoverable amount of an asset is defined in IAS 16, *Property, Plant and Equipment* as the higher of an asset's fair value less cost to sell and its value in use.

Under Canadian GAAP

- Canadian GAAP requires an entity to carry property and equipment on the cost basis subsequent to their initial recognition, and revaluation is prohibited.
- Annual depreciation is based on the greater of:
  - an allocation of the cost of an asset less its residual value over the useful life of the asset
  - an allocation of the cost less salvage value over the life of the asset
- Under Canadian GAAP residual value is defined, but does not contain guidance on the effect of changes in prices.
- Net recoverable amount is defined as the estimated future net cash flow from the use of the property or equipment, together with its residual value.

As a result, the Company has elected to use the election under IFRS 1 whereby on the transition to IFRS, the deemed cost of an item of property and equipment is the item's fair value as at January 1, 2010.

(ii) Share-based payment

Under IFRS:

- Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

Under Canadian GAAP:

- The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight line basis over the vesting period.
- Forfeitures of awards are recognized as they occur.

Under Canadian GAAP, when share options are forfeited before vesting, all the previous period changes are to be reversed in the period that the options are cancelled using either the estimation or actual method. The Company has previously chosen to reverse such forfeited options using the actual method.

However, IFRS requires those forfeited options to be reversed using an estimation method based on estimated forfeitures.

(iii) Deferred tax asset/liability

Under IFRS:

- All deferred tax assets and liabilities are classified as non-current.

Under Canadian GAAP

- Deferred tax assets and liabilities are classified as current or non-current as appropriate.

As a result, the Company reclassified current deferred tax assets and liabilities to non-current assets and liabilities respectively.

**QHR TECHNOLOGIES INC.**  
**MANAGEMENT DISCUSSION & ANALYSIS**

The Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

	Previously reported under Canadian GAAP	Property and equipment	Share-based payment	Deferred tax asset/liability	Total effect of transition to IFRS	Restated under IFRS
		(i)	(ii)	(iii)		
<b>ASSETS</b>						
Current assets						
Cash	\$ 4,621,810					\$ 4,621,810
Accounts Receivable	2,834,197					2,834,197
Inventory	70,238					70,238
Prepaid expenses and deposits	617,660					617,660
Deferred taxes	587,000			(587,000)	(587,000)	-
	8,730,905			(587,000)	(587,000)	8,143,905
Property and equipment	1,613,675	(22,448)			(22,448)	1,591,227
Deferred taxes	957,000			596,000	596,000	1,553,000
Goodwill	2,956,625					2,956,625
Intangible assets	8,189,170					8,189,170
	\$ 22,447,375	\$ (22,448)	\$ -	\$ 9,000	\$ (13,448)	\$ 22,433,927
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable and accrued liabilities	\$ 3,798,158					\$ 3,798,158
Promissory notes payable	84,016					84,016
Current portion of capital lease obligations	438,625					438,625
	4,320,799					4,320,799
Deferred revenue	1,667,081					1,667,081
	5,987,880					5,987,880
Deferred taxes	-			20,000	20,000	20,000
Capital lease obligations	517,919					517,919
	6,505,799	-	-	20,000	20,000	6,525,799
<b>SHAREHOLDERS' EQUITY</b>						
Share capital	17,669,668					17,669,668
Contributed surplus	248,796		77,893		77,893	326,689
Warrants	1,024,343					1,024,343
Deficit	(3,001,231)	(22,448)	(77,893)	(11,000)	(111,341)	(3,112,572)
	15,941,576	(22,448)	-	(11,000)	(33,448)	15,908,128
	\$ 22,447,375	\$ (22,448)	\$ -	\$ 9,000	\$ (13,448)	\$ 22,433,927

**QHR TECHNOLOGIES INC.**  
**MANAGEMENT DISCUSSION & ANALYSIS**

The Canadian GAAP statement of financial position at June 30, 2010 has been reconciled to IFRS as follows:

	Previously reported under Canadian GAAP	Property and equipment (i)	Share-based payment (ii)	Total effect of transition to IFRS	Restated under IFRS
<b>ASSETS</b>					
Current assets					
Cash	\$ 344,813				\$ 344,813
Accounts Receivable	3,580,233				3,580,233
Inventory	46,854				46,854
Prepaid expenses and deposits	441,419				441,419
Investment tax credit receivable	579,092				579,092
	4,992,411				4,992,411
Accounts receivable	23,156				23,156
Property and equipment	1,434,330	(22,448)		(22,448)	1,411,882
Goodwill	2,961,192				2,961,192
Intangible assets	8,520,921				8,520,921
	\$ 17,932,010	\$ (22,448)	\$ -	\$ (22,448)	\$ 17,909,562
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and accrued liabilities	\$ 3,198,721				\$ 3,198,721
Promissory notes payable	846,547				846,547
Current portion of long-term debt	271,029				271,029
Current portion of capital lease obligations	323,977				323,977
	4,640,274				4,640,274
Deferred revenue	4,156,080				4,156,080
	8,796,354				8,796,354
Long-term debt	1,473,719				1,473,719
Capital lease obligations	316,120				316,120
	10,586,193	-	-	-	10,586,193
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	10,684,144				10,684,144
Contributed surplus	172,804		50,335	50,335	223,139
Warrants	578,189				578,189
Deficit	(4,089,320)	(22,448)	(50,335)	(72,783)	(4,162,103)
	7,345,817	(22,448)	-	(22,448)	7,323,369
	\$ 17,932,010	\$ (22,448)	\$ -	\$ (22,448)	\$ 17,909,562

**QHR TECHNOLOGIES INC.**  
**MANAGEMENT DISCUSSION & ANALYSIS**

The Canadian GAAP statement of earnings and comprehensive income for the three months ended June 30, 2010 has been reconciled to IFRS as follows:

Three months ended June 30, 2010	Notes	Previously reported under Canadian GAAP	IFRS adjustments	Restated under IFRS
Revenue		\$ 5,092,462		\$ 5,092,462
Operating Expenses				
Cost of goods sold		546,061		546,061
Service costs		2,174,863		2,174,863
Selling and administrative expenses		1,436,156		1,436,156
		4,157,080		4,157,080
Earnings before the following items		935,382		935,382
Stock-based compensation expense	(ii)	19,320	25,763	45,083
Amortization of property and equipment		191,584		191,584
Amortization of intangible assets		286,480		286,480
Interest expense		127,576		127,576
Loss on foreign exchange		2,256		2,256
		627,216	25,763	652,979
Earnings before income taxes		308,166	(25,763)	282,403
Recovery of income taxes				
Current		-	-	-
Deferred		-	-	-
		-	-	-
<b>Net earnings and comprehensive income</b>		<b>\$ 308,166</b>	<b>\$ (25,763)</b>	<b>\$ 282,403</b>

**QHR TECHNOLOGIES INC.**  
**MANAGEMENT DISCUSSION & ANALYSIS**

The Canadian GAAP statement of loss and comprehensive income for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

Six months ended June 30, 2010	Notes	Previously reported under Canadian GAAP	IFRS adjustments	Restated under IFRS
Revenue		\$ 9,754,408		\$ 9,754,408
Operating Expenses				
Cost of goods sold		1,027,923		1,027,923
Service costs		4,269,922		4,269,922
Selling and administrative expenses		3,280,266		3,280,266
		8,578,111		8,578,111
Earnings before the following items		1,176,297		1,176,297
Stock-based compensation expense	(ii)	38,639	16,008	54,647
Amortization of property and		318,399		318,399
Amortization of intangible assets		561,617		561,617
Interest expense		276,866		276,866
Loss on foreign exchange		7,343		7,343
		1,202,864	16,008	1,218,872
Earnings (loss) before income taxes		(26,567)	(16,008)	(42,575)
Recovery of income taxes				
Current		-		-
Deferred		-		-
		-		-
Net loss and comprehensive income		\$ (26,567)	\$	\$ (42,575)

**QHR TECHNOLOGIES INC.**  
**MANAGEMENT DISCUSSION & ANALYSIS**

The Canadian GAAP statement of cash flows for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

Six months ended June 30, 2010	Notes	Previously reported under Canadian GAAP	IFRS adjustments	Restated under IFRS
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss)		\$ (26,567)	\$ (16,008)	\$ (42,575)
Items not affecting cash				
Amortization of property and equipment		318,399		318,399
Amortization of intangible assets		561,617		561,617
Stock-based compensation	(ii)	38,639	16,008	54,647
Changes in non-cash operating assets and liabilities				
Accounts receivable		(1,313,664)		(1,313,664)
Inventory		(15,464)		(15,464)
Prepaid expenses and deposits		295,822		295,822
Accounts payable and accrued liabilities		(478,545)		(478,545)
Deferred revenue		2,074,668		2,074,668
		1,454,905		1,454,905
<b>INVESTING ACTIVITIES</b>				
Purchase of property and equipment		(226,232)		(226,232)
Business acquisition net of cash acquired		(42,011)		(42,011)
Acquisition of intangible assets		(256,875)		(256,875)
		(525,118)		(525,118)
<b>FINANCING ACTIVITIES</b>				
Repayment of capital leases and long-term debt		(489,298)		(489,298)
Repayment of promissory note		(2,193,910)		(2,193,910)
Proceeds from share issuances, less issue costs		1,060,625		1,060,625
		(1,622,583)		(1,622,583)
Increase (decrease) in cash		(692,796)		(692,796)
Cash - beginning of period		1,037,609		1,037,609
Cash - end of period		344,813		344,813

## **6.0 CRITICAL ACCOUNTING ESTIMATES**

On January 1, 2011, with the adoption of IFRS, the Company prepared its consolidated financial statements in accordance with International Financial Reporting Standards, and made estimates and assumptions that affect its reported amounts of assets, liabilities, revenue and expenses, and the related disclosures of contingent liabilities. The Company based its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. Actual results may differ from these estimates.

Management has discussed the development and selection of the Company's critical accounting estimates with the Audit Committee of the Company's Board of Directors, and the Audit Committee has reviewed the following disclosures.

The following critical accounting policies reflect the Company's more significant estimates and assumptions used in preparing its consolidated financial statements:

### *Business Combinations and Goodwill*

Business combinations that occurred prior to January 1, 2010 were not accounted for in accordance with IFRS 3, "Business Combinations" and IAS 27, "Consolidated and Separate Financial Statements" in accordance with the IFRS 1, "First-time Adoption of International Financial Reporting Standards" exemption discussed further in note 18.

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at the acquisition date at fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the appropriate share of the acquirer's identifiable net assets. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognized at their fair values at the acquisition date. Acquisition costs incurred are expensed in the period in which they are incurred.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Company's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the Consolidated Statement of Earnings and Comprehensive Income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect amounts reported in the financial statements and notes thereto. Actual amounts may ultimately differ from these estimates.

Significant areas requiring the use of management estimates relate to the determination of the net recoverable value of assets, including inventory obsolescence provisions, allowance for doubtful accounts, impairment of non-financial assets, valuation of deferred tax assets, useful lives for depreciation and amortization, share-based payment, allocation of purchase price of acquisitions, selling prices, fair value of revenues, provisions for warranties and income taxes. Management reviews significant estimates on a periodic basis and, where necessary, makes adjustments prospectively

### *Share-based Compensation*

The Company grants stock options to buy common shares of the Company to directors, senior officers, employees and service providers pursuant to an incentive share option plan described in note 12. The Board of Directors grants such options for periods of up to 2-5 years, with vesting periods determined at its sole discretion and at prices equal to the closing market price on the day the options were granted.

Under this method, the Company recognizes compensation expense for stock options awarded based on the fair value of the options at the grant date using the Black-Scholes option pricing model. The fair value of the options is amortized over the vesting period and is included in selling, general and administrative expense with a corresponding increase in equity. The amount recognized as an expense is adjusted to reflect the number of share options expected to eventually vest.

### *Allowance for Doubtful Accounts*

The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. Management provides for bad debts by reviewing all specific customer accounts and trends and sets aside a specific amount towards the allowance account based on this analysis. The amount reserved is based on the Company's historical default experience direct knowledge of customer credit worthiness, and payment trends. Customer aging is reviewed monthly by management to ensure consistency with best practices. At any time throughout the year, if the Company determines that the financial condition of any of its customers has deteriorated; increases in the allowance may be made.

### *Intangible Assets*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Consolidated Statement of Earnings and Comprehensive Income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Consolidated Statement of Earnings and Comprehensive Income when the asset is derecognized.

The Company records amortization of intangible assets on a straight-line basis at the following annual rates, which approximate the useful lives of the assets:

Developed technology	5 years
Contracted development	3 years
Customer relationships	3 to 10 years
Acquired technology	3 to 7 years

### *Revenue Recognition*

#### EMS division

The software license revenues are recognized after completion of the initial support and maintenance period. Professional fees to implement the software are recognized when the amount of revenue and cost can be measured reliably, and the stage of completion of the service can be measured reliably. Annual maintenance and support revenue is paid in advance and recognized on a straight-line basis throughout the year as this approximates the rate at which the service is delivered. Annual maintenance and support payments received in advance are recorded as deferred revenue on the balance sheet, until earned. The EMS division generates approximately 30% of its revenue through recurring revenue of existing customers.

#### EMR division

Accuro® EMR systems are sold based on a monthly license and services agreement with monthly recurring revenues dependant on the number of physicians and other health professionals using the software at the customer site. The monthly fee is a blended payment for the use of the software, on-going enhancements and technical support and is recognized as the service is delivered on a monthly basis. There are upfront fees to cover the cost of training and implementation and this revenue is recognized when the amount of revenue and expense can be measured reliably, and when the stage of completion of the service can be measured reliably. The EMR division generates approximately 70% of its revenue through recurring revenue of existing customers.

The EMR division sales and marketing efforts are focused on selling Accuro® to new and acquired customers. Existing customers of its other acquired EMR and patient management systems are charged recurring monthly or annual fees for software maintenance and support. Annual maintenance and support payments are paid in advance and are recorded as deferred revenue on the balance sheet until they are recognized as revenue.

#### Hosting division

The Hosting division provides hosting services to EMR customers, including application hosting, technical support, off-site data storage and business continuation services. Customers are charged an initial fee for implementation and ongoing recurring charge for the maintenance of their application and data services. In some cases, the division sells hardware in conjunction with the implementation. Revenue from implementation and setup is recognized once the service is delivered and completed and the on-going revenue for data management and hosting services is recognized on a monthly basis. To the extent hardware is sold, the revenue is recognized once the systems are set up and delivered. The hosting division generates approximately 50% of its revenue number for this division to trend upwards as the division matures.

### *Income Taxes*

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the Consolidated Statement of Earnings and Comprehensive Income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred taxes are recorded using the statement of financial position liability method. Under the statement of financial position liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled.

The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Company intends to settle its current tax assets and liabilities on a net basis.

The Company account for income tax credits is in accordance with IAS 12, "*Income Taxes*".

### *Contingencies*

In the normal course of business, from time to time, the Company may become involved in litigation. As at June 30, 2011, the Company is a defendant in one third party claim relating to a dispute arising from the Company's acquisition of Clinicare Corporation. Management believes the claim is without merit and has responded with a statement of defense. The foundation of the dispute centres on a hold back that the Company made on disbursements of proceeds based on specific commercial attributes not being evident upon closing which were represented by the vendor. Accordingly, the Company is confident that there will be no material impact arising from this litigation.

### *Subsequent Event*

On July 4, 2011 QHR concluded the purchase of assets of EMIS Inc. the Canadian subsidiary of Egton Medical Information Systems Limited based in Leeds, UK previously announced on April 26, 2011. The value of the acquisition is approximately \$400,000 of predominately capital assets.

On July 25, 2011, QHR Technologies through a newly formed subsidiary, 2293035 Ontario Limited, ("229") concluded a transaction with WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III ("Wellington") wherein Wellington assigned to 229 all of Wellington's right, title and interest in and to the Debentures and the security and related documents in relation to Healthscreen Solutions Incorporated (the "Assignment Agreement"). Under the Assignment Agreement, Wellington assigned to 229 a Secured Debenture from Healthscreen dated May 15, 2008 in the principal amount of \$4,250,000, as amended ("Debenture A") and a Secured Debenture from Healthscreen dated April 7, 2009 in the principal amount of \$550,000, as amended ("Debenture B" and together with Debenture A, the "Debentures" ). As a result of the assignment, Healthscreen is currently indebted to 229 in excess of \$5,100,000, which was the total consideration paid for the debentures by the Company. As security for this debt, 229 holds various securities including the following:

- A General Security Agreement from Healthscreen dated May 15, 2008 (the "GSA");
- Confirmation of security interests in intellectual property from Healthscreen dated May 15, 2008;
- A guarantee from MTC (a related entity to Healthscreen) dated May 15, 2008 in relation to Debenture A secured by a Security Agreement from MTC dated May 15, 2008 (collectively, the "MTC Guarantee and Security");
- A Guarantee from 1589681 Ontario Limited (a related entity to Healthscreen) dated May 15, 2008 in relation to Debenture A, secured by a Security Agreement from 1589681 Ontario Limited dated May 15, 2008 (collectively, the "158 Guarantee and Security"); and
- Acknowledgement, Agreement and Confirmation from Healthscreen and MTC dated April 7, 2009 (the "Acknowledgment") acknowledging and agreeing, among other things, the validity and enforceability of the GSA and the MTC Guarantee and Security.
- QHR is working with Healthscreen and their advisors on strategic options with regards to the Healthscreen software and electronic medical records operations which QHR is interested in separating from the rest of Healthscreen business and acquiring through the obligations due to QHR under the debentures.

The Company's liquidity (cash balance) was impacted by the acquisition of the debentures by approximately \$5,100,000.

## **7.0 BUSINESS RISKS AND UNCERTAINTIES**

### *Risks Associated with Business and Operations*

The Company is exposed to a variety of business risks, some of which are inherent to all commercial enterprises and others specific to the software applications industry. Management endeavors to limit the effects of risk factors through its planning and management processes.

### *Government Regulation and Funding*

The Company operates in market sectors influenced by government regulations and funding policies. The EMS division sells to large healthcare organizations which can result in extended sales cycles and unpredictable timing on license revenue. The adoption rate of EMR software is heavily dependent on the continuation of funding to physicians by provincial governments. Additionally, provincial regulations can significantly impact sales of software in each province. The Company ensures that its products are compliant with government regulations and continually monitors changes in provincial regulations.

### *Software Industry & Competition*

There are risks associated with the software industry. The Company faces competition from companies selling similar solutions which will impact QHR's ability to grow, maintain market share and revenue. Competition may also affect the software functionality that the Company will need to develop and selling strategies it needs to adopt, furthermore the Company cannot be sure it will be able to identify emerging technology and market trends, enhance its existing technologies or develop new technologies in order to effectively compete in its markets. New competitors may also appear as new technologies, products and services are developed. Competition could also affect the Company's pricing strategies and lower revenue and net earnings. Additionally, competition could also affect the Company's ability to recruit and retain key staff as well as retain existing customers.

### *Operating Results*

The Company has incurred losses in the past and revenue in part depends on signing new contracts some of which are subject to long and complex sales cycles. Failure to continue to close these transactions would have a material adverse effect on the Company's operating performance and results.

### *Acquisitions*

A strategic initiative of the Company is to continue to grow through acquisitions. There is no assurance that the Company will find suitable companies to acquire or that the Company will have the necessary resources to make these acquisitions.

### *Key Employees*

Success of the Company largely depends upon the continued efforts and performance of its key employees and executive team. Failure to attract and retain key employees with the requisite skills could have an adverse material impact upon the Company's operating results and financial condition.

### *Liquidity*

The Company's growth strategy anticipates being able to finance the Company's operations and its continued expansion through additional equity investments and debt financing. There is no assurance that the Company will be able to secure such financing in the future.

## **8.0 RISKS ASSOCIATED WITH BUSINESS AND OPERATIONS**

The Company's exposure to business and operation risks includes but is not limited to the following:

- The Company recognizes the threats posed by the current credit crisis and global recession, but cannot guarantee that it will be able to successfully navigate through the current downturn.
- The Company cannot be sure it will be able to identify emerging technology and market trends, enhance its existing technologies or develop new technologies in order to effectively compete in its markets
- The Company cannot be sure that it will be able to compete effectively with the current competitors. The Company's markets are intensely competitive. Some competitors have technologies and products that may be more advantageous and compete directly with the Company. Some of these competitors are large, established companies which have significantly greater resources than those of the Company.
- The Company has limited intellectual property protection. The Company's success and ability to compete are dependent, in part, upon its proprietary technology, brand and reputation in the marketplace, and customer relationships.
- If the Company experiences rapid growth and does not manage it effectively, profitability may be affected.
- The Company's operations may be disrupted by natural disasters and extreme weather conditions.
- Mergers or other strategic transactions by our competitors could weaken our competitive position or reduce our revenue.
- The Company's level of indebtedness and its failure to comply with our indebtedness arrangements may adversely affect our business and operations. As at June 30, 2011 the Company currently holds no applicable debt requiring a credit facility.

## **9.0 RISKS ASSOCIATED WITH THE VALUE OF SHARES**

The current financial market volatility can result in wide fluctuations in the market price of the Company's stock. Despite the previously mentioned profitable results, the uncertainty and volatility in current financial markets can result in wide fluctuations in the market price of the Company's stock. The Company's operating results have varied on a quarterly basis in the past and may fluctuate significantly in the future