



Condensed Interim Consolidated Financial Statements
Three and Six Months Ended as at June 30, 2011

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Corporation have been prepared by, and are the responsibility of, the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

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QHR TECHNOLOGIES INC.
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FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

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QHR TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2011 AND DECEMBER 31, 2010
(UNAUDITED)

	Notes	June 30, 2011	December 31, 2010 (Note 17)
ASSETS			
Current Assets			
Cash		\$ 6,504,269	\$ 4,621,810
Accounts receivable		4,153,681	2,834,197
Inventory		60,591	70,238
Prepaid expenses and deposits		721,346	617,660
		11,439,887	8,143,905
Property and equipment	5	1,502,159	1,591,227
Deferred income taxes	11	1,502,000	1,553,000
Investment tax credit		259,042	-
Goodwill	6	2,956,625	2,956,625
Intangible assets	7	7,806,518	8,189,170
		\$ 25,466,231	\$ 22,433,927
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 3,245,715	\$ 3,798,158
Promissory notes payable		83,495	84,016
Current portion of capital lease obligations	8	383,394	438,625
		3,712,604	4,320,799
Deferred revenue		4,048,914	1,667,081
		7,761,518	5,987,880
Deferred income taxes	11	195,000	20,000
Capital lease obligations	8	403,564	517,919
		8,360,082	6,525,799
SHAREHOLDERS' EQUITY			
Share capital	9	17,717,065	17,669,668
Contributed surplus	9	829,999	326,689
Warrants	9	581,863	1,024,343
Deficit		(2,022,778)	(3,112,572)
		17,106,149	15,908,128
		\$ 25,466,231	\$ 22,433,927
Commitments	13		
Contingencies	15		
Subsequent event	16		

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors,

"Al Hildebrandt"
 Director

"David Martin"
 Director

QHR TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(UNAUDITED)

	Notes	Three months ended June 30		Six months ended June 30	
		2011	2010	2011	2010
			(Note 17)		(Note 17)
REVENUE		\$ 5,230,505	\$ 5,092,462	\$ 11,712,406	\$ 9,754,408
OPERATING EXPENSES					
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		610,543	935,382	2,036,708	1,176,297
Stock-based compensation expense	9	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
Earnings (loss) before income taxes		130,613	282,403	1,058,730	(42,575)
Income taxes	11				
Current (recovery)		(50,373)	-	(257,064)	-
Deferred		68,000	-	226,000	-
		17,627	-	(31,064)	-
Net earnings (loss) and comprehensive income		\$ 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	10	43,146,750	30,621,330	43,126,103	30,043,806

The accompanying notes are an integral part of these consolidated financial statements.

QHR TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(UNAUDITED)

	Notes	Issued Capital	Contributed Surplus	Warrants	Deficit	Total Equity (Note 17)
As at December 31, 2010		\$ 17,669,668	\$ 326,689	\$ 1,024,343	\$ (3,112,572)	\$ 15,908,128
Net earnings for the period		-	-	-	1,089,794	1,089,794
Total		17,669,668	326,689	1,024,343	(2,022,778)	16,997,922
Exercise of options		32,500	-	-	-	32,500
Reallocation on exercise of options		14,897	(14,897)	-	-	-
Warrants expired	9(d)	-	442,480	(442,480)	-	-
Stock based compensation	9(c)	-	75,727	-	-	75,727
As at June 30, 2011		\$ 17,717,065	\$ 829,999	\$ 581,863	\$ (2,022,778)	\$ 17,106,149

	Notes	Issued Capital	Contributed Surplus	Warrants	Deficit	Total Equity (Note 17)
As at January 1, 2010		\$ 9,559,282	\$ 168,492	\$ 477,709	\$ (4,119,528)	\$ 6,085,955
Net earnings for the period	17	-	-	-	(42,575)	(42,575)
Total		9,559,282	168,492	477,709	(4,162,103)	6,043,380
Issued pursuant to March 16, 2010 private placement		(100,480)	-	100,480	-	-
Exercise of options		29,625	-	-	-	29,625
Shares cancelled		(2,500)	-	-	-	(2,500)
For cash pursuant to private placement at \$0.65		1,040,000	-	-	-	1,040,000
Share issue costs for private placement		(6,500)	-	-	-	(6,500)
Shares issued to Clinicare shareholders for Promissory Notes @ \$0.65		164,717	-	-	-	164,717
Stock based compensation		-	54,647	-	-	54,647
As at June 30, 2010		\$10,684,144	\$ 223,139	\$ 578,189	\$ (4,162,103)	\$ 7,323,369

The accompanying notes are an integral part of these consolidated financial statements.

QHR TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(UNAUDITED)

	Six months ended June 30	
	2011	2010
		(Note 17)
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 1,089,794	\$ (42,575)
Items not affecting cash		
Amortization of property and equipment	258,047	318,399
Amortization of intangible assets	584,596	561,617
Stock-based compensation	75,727	54,647
Deferred taxes	226,000	-
Changes in non-cash operating assets and liabilities		
Accounts receivable	(1,319,484)	(1,313,664)
Inventory	9,647	(15,464)
Prepaid expenses and deposits	(103,686)	295,822
Investment tax credit	(259,042)	-
Accounts payable and accrued liabilities	(552,443)	(478,545)
Deferred revenue	2,381,833	2,074,668
	<u>2,390,989</u>	<u>1,454,905</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(73,991)	(226,232)
Business acquisition net of cash acquired	-	(42,011)
Acquisition of intangible assets	(201,944)	(256,875)
	<u>(275,935)</u>	<u>(525,118)</u>
FINANCING ACTIVITIES		
Repayment of capital leases and long term debt	(264,574)	(489,298)
Repayment of promissory note	(521)	(2,193,910)
Proceeds from share issuances, less issue costs	32,500	1,060,625
	<u>(232,595)</u>	<u>(1,622,583)</u>
Increase (decrease) in cash	1,882,459	(692,796)
Cash - beginning of period	4,621,810	1,037,609
Cash - end of period	\$ 6,504,269	\$ 344,813
Supplemental cash flow disclosure		
Interest paid	\$ 54,275	\$ 276,866
Non-cash financing and investing activities:		
Capital assets acquired under capital lease obligations	94,987	102,802
Leaseholds financed by landlord	-	115,883
Share capital issued with long term debt	-	164,717

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Business

QHR Technologies Inc. is a public company whose shares are traded on the TSX Venture Exchange (TSXV: QHR) incorporated under the laws of British Columbia, Canada and its registered office is Suite 300 – 1620 Dickson Avenue British Columbia, Canada. The Company's principal business is the development and delivery of human resource management, payroll, staff scheduling and financial software systems for healthcare organizations, social services and public safety sectors as well as electronic medical records applications for physicians' medical offices.

2. Condensed Interim Consolidated Financial Statements

The notes presented in these condensed interim consolidated financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in QHR Technologies Inc.'s annual audited financial statements. Further, these condensed interim consolidated financial statements should be read in conjunction with the QHR Technologies Inc. audited consolidated financial statements for the year ended December 31, 2010.

These condensed interim consolidated financial statements, including comparatives, are expressed in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. These condensed interim consolidated financial statements comply with International Accounting Standard 34, *Interim Financial Reporting* and IFRS 1, *First time adoption of International Financial Reporting Standards*.

The terms "QHR" or the "Company" are used to mean QHR Technologies Inc. and, where the context of the narrative permits, or requires, its subsidiaries. The results for the six months ended June 30, 2011 may not be indicative of the results that may be expected for the full year or any other period.

3. Significant Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention. The Company's principal accounting policies are outlined below:

a) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries, which are as follows:

EMS division: The EMS division consists of the *QHR Software Inc.* subsidiary.

EMR division: The EMR division consists of the *Optimed Software Corporation* and *Chartcare Inc.* (US subsidiary of Optimed Software Corporation).

Hosting division: *Cloudwerx Data Solutions Inc.*

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All significant intercompany balances and transactions have been eliminated.

b) 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 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.

c) 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 consolidated 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

d) Share-based Payments

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 9. 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.

e) Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid interest bearing term deposits that are readily convertible to known amounts of cash with terms to maturity of up to 3 months. The cash and cash equivalents act as the Company's primary source of cash and fluctuate directly as a result of its cash flows from operating, investing and financing activities.

f) 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.

h) Inventories

Computer hardware and supplies inventory is stated at the lower of cost, determined on a first in – first out basis, and net realizable value.

g) Prepaid Expenses and Deposits

Included in short-term prepaid expenses and deposits are prepayments related to materials, insurance premiums and other deposits required in the normal course of business which are less than one year.

i) Property and Equipment

Property and equipment are stated at cost and net of accumulated depreciation. Amortization of property and equipment is recorded on a straight-line basis at the following annual rates, which approximate the useful lives of the assets:

Furniture and fixtures	10 years
Office equipment	5 years
Computer hardware	3 – 4 years
Computer software	3 years
Leasehold improvements	10 years

When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. When a major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the Consolidated Statement of Earnings and Comprehensive Income as incurred.

Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful lives.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if applicable. The Company has elected to choose the cost method of accounting for each class of property and equipment as outlined under IAS 16, *Property, Plant and Equipment*.

Leases are classified as either capital or operating leases. A lease that transfers substantially the entire benefits and risks incidental to the ownership of property to the Company is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the future minimum lease payments and the property's fair value at the beginning of such lease. Amortization of the equipment under capital lease is on the same basis as similar property and equipment.

j) 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

k) Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and value in use. In assessing value in use, the 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the Consolidated Statement of Earnings and Comprehensive Income for the period.

An impairment loss is reversed if there is an indication that an impairment loss recognized in prior periods may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized previously. Such reversal is recognized in the Consolidated Statement of Earnings and Comprehensive Income. An impairment loss with respect to goodwill is never reversed.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount. Impairment losses relating to goodwill are not reversed in future periods.

Intangible assets with indefinite lives are tested for impairment annually either individually or at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

l) Deferred Revenue

Revenue that has been paid for by customers but will qualify for recognition within the next year under the Company's policies is reflected in current liabilities as deferred revenue (revenue that can be recognized in one year or less). Amounts billed in advance of providing the related service, where the Company has the contractual right to bill for and collect these amounts are also reflected in current liabilities as deferred revenue. Included in deferred revenue are amounts related to installation, training, extended warranty, and post contract support associated with the sale of the Company's products.

m) Financial Instruments

Financial assets

Financial assets are classified into one of four categories:

- financial assets at fair value through profit or loss ("FVTPL"),
- held-to-maturity investments,
- loans and receivables, and
- available for sale financial assets.

The Company determines the classification of its financial assets at initial recognition, depending on the nature and purpose of the financial asset.

All financial assets are recognized initially at fair value plus directly attributable transaction costs.

The Company's financial assets include cash and receivables.

The subsequent measurement of financial assets depends on their classification as follows:

i. Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is held for trading or is designated upon initial recognition as FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term, it is part of an identified portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or it is a derivative that is not designated as an effective hedging instrument.

Financial assets classified as FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in the Consolidated Statement of Earnings and Comprehensive Income.

The Company has not designated any financial assets as FVTPL.

ii. Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method. The losses arising from impairment are recognized in the Consolidated Statement of Earnings and Comprehensive Income.

The Company has not designated any financial assets as held-to-maturity investments.

iii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized costs using the effective interest rate method. The impairment loss of receivables is based on a review of all outstanding amounts at year end. Bad debts are written off during the period in which they are identified. The losses arising from impairment are recognized in the Consolidated Statement of Earnings and Comprehensive Income. Interest income is recognized by applying the effective interest rate.

The effective interest rate method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

The Company has classified cash and receivables as loans and receivables.

iv. Available-for-sale financial assets

Non-derivative financial assets are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available for sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the Consolidated Statement of Earnings and Comprehensive Income and removed from the available-for-sale reserve.

The Company has not designated any financial assets as available-for-sale assets.

v. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding receivables, is directly reduced by the impairment loss. The carrying amount of receivables is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the Consolidated Statement of Earnings and Comprehensive Income.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value, net of transaction costs.

The financial liabilities include accounts payables and accrued liabilities, promissory notes payable and long-term debt.

Subsequent measurement of financial liabilities depends on their classification as follows:

i. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative instruments that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Gains and losses on liabilities held for trading are recognized in the Consolidated Statement of Earnings and Comprehensive Income.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

ii. Other financial liabilities

After initial recognition at fair value less transaction costs, other financial liabilities are subsequently measured at amortized costs using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest is the rate that discounts estimated future cash payments over the expected life of the financial liability.

Gains and losses are recognized in the Consolidated Statement of Earnings and Comprehensive Income.

The Company has classified accounts payables and accrued liabilities, promissory notes payable and long-term debt as other financial liabilities.

iii. Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expired.

The carrying value of financial liabilities approximates their fair value due to their immediate or short-term to maturity.

n) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Consolidated Statement of Earnings and Comprehensive Income, net of any reimbursement.

o) 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 and 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.

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 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 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.

p) Research and Development Costs

The Company incurs costs to research and develop its proprietary software products to be sold, licensed or otherwise marketed. Research costs are expensed as incurred. Development costs are expensed as incurred unless a project meets certain criteria for capitalization and amortization. In this case the development costs are capitalized and amortized over the estimated useful life of the software product developed. Amortization of capitalized development costs commences when development of the software is complete and the product is available for sale to customers.

q) 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 accounts for income tax credits in accordance with IAS 12, *Income Taxes* where credits are recorded as a credit to income tax expense on the statement of earnings and comprehensive income.

r) Net Earnings (Loss) Per Share

Basic net earnings per share are computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during the period.

Diluted net earnings per share is computed similar to basic net earnings per shares, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants at the beginning of the reporting period, if dilutive. The number of additional shares is calculated assuming that outstanding stock options and warrants were exercised and the proceeds from such exercises were used to repurchase common shares at the average market price during the reporting period. Stock options and warrants are dilutive when the market price of the common shares at the end of the period exceeds the exercise price of the options and warrants and when the Company generates income from operations.

4. Financial Instruments and Risk Exposures

Fair Value Measurement

The Company's financial assets include cash and receivables. The Company's financial liabilities include accounts payable and accrued liabilities, promissory notes payable and long-term debt.

The Company has classified its cash and cash equivalents, short-term investments, and trade and other receivables as loans and receivables, measured at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, promissory notes payable and long-term debt, are classified as other financial liabilities, measured at amortized cost using the effective interest rate method.

The carrying value of the Company's financial assets and liabilities 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 regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Pursuant to their respective terms, net accounts receivable was aged as follows as at June 30, 2011 and December 31, 2010:

	June 30, 2011	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)
	\$ 4,153,681	\$ 2,834,197

The Company may also have credit risk relating to cash, which it manages by dealing with large chartered banks in Canada and investing in highly liquid investments. The Company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investments in highly liquid investments such as guaranteed investment funds. The Company's cash carrying value as at June 30, 2011 totaled \$6,504,269 (December 31, 2010 - \$4,621,810); and accounts receivable of \$4,153,681 (December 31, 2010 - \$2,834,197), representing the maximum exposure to credit risk of these financial assets.

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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 \$4,153,681 for a total of \$10,657,950 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.

Contractual 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
Total	\$ 3,712,604	\$ 403,564	\$ -	\$ -	\$ 4,116,168

Foreign currency risk

Foreign currency risk is the risk that the future cash flows or fair value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. Less than 3% of revenue is transacted in US dollars and the Company is exposed to foreign exchange risk thereon. The impact of future rate fluctuations cannot be predicted with certainty; however, the Company's exposure to fluctuations in the United States dollar is small since the Company has minimal financial assets or liabilities denominated in currencies other than the Canadian dollar.

5. Property and Equipment, net

June 30, 2011	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 265,790	\$ 84,908	\$ 180,882
Office equipment	237,186	113,777	123,409
Computer – hardware	2,874,624	1,991,706	882,918
Computer – software	596,610	525,360	71,250
Leasehold improvements	483,346	239,646	243,700
	\$ 4,457,556	\$ 2,955,397	\$ 1,502,159

At June 30, 2011 the cost and accumulated amortization of capital assets acquired under capital lease obligations are \$1,091,693 and \$327,789 respectively.

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 263,219	\$ 72,923	\$ 190,296
Office equipment	213,674	95,142	118,532
Computer – hardware	2,748,922	1,813,179	935,743
Computer – software	587,126	500,915	86,211
Leasehold improvements	475,635	215,190	260,445
	\$ 4,288,576	\$ 2,697,349	\$ 1,591,227

At December 31, 2010 the cost and accumulated amortization of capital assets acquired under capital lease obligations are \$1,084,933 and \$357,462 respectively.

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6. Goodwill

June 30, 2011	EMS	EMR	Hosting	Total
	\$ 2,219,088	\$ 430,692	\$ 306,845	\$ 2,956,625

December 31, 2010	EMS	EMR	Hosting	Total
	\$ 2,219,088	\$ 430,692	\$ 306,845	\$ 2,956,625

7. Intangible Assets

June 30, 2011	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 7,126,000	\$ 1,666,510	\$ 5,459,490
Acquired technology	2,192,500	1,232,619	959,881
Developed technology	1,566,498	197,220	1,369,278
Contract development	91,897	74,028	17,869
	\$ 10,976,895	\$ 3,170,377	\$ 7,806,518

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 7,126,000	\$ 1,309,460	\$ 5,816,540
Acquired technology	2,192,500	1,066,619	1,125,881
Developed technology	1,364,555	150,991	1,213,564
Contract development	91,897	58,712	33,185
	\$ 10,774,952	\$ 2,585,782	\$ 8,189,170

8. Obligations under Capital Lease

Capital lease obligations are payable in monthly installments with interest at 8% to 14.9% per annum, to December 2013, secured by certain computer equipment, furniture and fixtures.

Minimum lease payments over the next five years and thereafter amount to:	June 30, 2011	December 31, 2010
2011	\$ 240,764	\$ 528,885
2012	394,656	353,878
2013	231,337	208,912
2014 and thereafter	5,476	-
Total minimum lease payments	872,233	1,091,675
Lease payment amounts representing interest	85,275	135,131
Present value of net minimum capital lease payments	786,958	956,544
Current portion of capital lease obligations	(383,394)	(438,625)
	\$ 403,564	\$ 517,919

9. Issued Capital

- (a) Authorized
Unlimited common shares without par value
Unlimited Class "A" Preference shares

- (b) Issued

Shares issued and outstanding	Number of shares	Amount
Balance December 31, 2010	42,660,621	\$ 17,669,668
Options exercised	130,000	32,500
Options exercised from contributed surplus	-	14,897
Balance June 30, 2011	42,790,621	\$ 17,717,065

- (c) Stock-based Compensation Plan

The Company has a stock option plan (the "Plan") pursuant to which options to subscribe for common shares of the Company may be granted to certain officers, employees and consultants of the Company. The board of directors administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted.

The exercise price of each option granted under the Plan is fixed by the board, but cannot under any circumstances be less than the closing price of the Company's shares on the last trading day prior to the date of the grant, less any discount permitted by the Toronto Stock Exchange, but, in any event, not less than \$0.10 per share. Options granted shall be non-assignable and non-transferable and shall not have a term in excess of five years.

Share purchase options outstanding at June 30, 2011 are as follows:

Share purchase options outstanding	Number of options	Weighted average exercise price
Balance, December 31, 2010	2,123,750	0.45
Exercised	(130,000)	0.25
Forfeited	(22,500)	0.60
Balance, June 30, 2011	1,971,250	\$ 0.46

The following tables summarize information pertaining to the Company's share purchase options outstanding:

June 30, 2011		Options outstanding		Options exercisable	
Number of options outstanding	Weighted average remaining contractual life(years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price	
505,000	2.1	\$ 0.25	505,000	\$ 0.25	
250,000	2.1	0.25	250,000	0.25	
486,250	3.3	0.60	386,250	0.60	
730,000	1.5	0.60	552,000	0.60	
1,971,250	2.43	\$ 0.47	1,693,250	\$ 0.44	

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December 31, 2010		Options outstanding		Options exercisable	
Number of options outstanding	Weighted average remaining contractual life(years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price	
885,000	2.6	0.25	794,395	0.25	
488,750	3.8	0.60	283,750	0.60	
750,000	2.0	0.60	187,500	0.60	
2,123,750	2.67	\$ 0.45	1,265,645	\$ 0.38	

The exercise price of all share purchase options granted during the period are equal to the closing market price at the grant date. The Company calculates stock based compensation from the vesting of stock options using the Black Scholes Option Pricing Model and records related compensation expense as follows for the three months ended June 30, 2011 and 2010:

	June 30, 2011	June 30, 2010
Total stock based compensation	\$ 37,622	\$ 54,647

(d) Warrants

The continuity of share purchase warrants is as follows:

	Number of warrants	Value of warrants
Balance, December 31, 2010	9,578,850	\$ 1,024,343
Warrants expired March 16, 2011	(800,000)	(100,480)
Warrants expired June 20, 2011	(2,000,000)	(342,000)
Balance, June 30, 2011	6,778,850	\$ 581,863

(e) Contributed Surplus

The continuity of contributed surplus is as follows:

Balance, December 31, 2010	\$ 326,689
Options exercised	(14,897)
Warrants expired March 16, 2011	100,480
Warrants expired June 20, 2011	342,000
Stock based compensation	75,727
Balance, June 30, 2011	\$ 829,999

10. Earnings per Share

The reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations was as follows for the three months and six months ended June 30, 2011 and 2010:

Three months ended	June 30, 2011	June 30, 2010
Numerator		
Net earnings and comprehensive income	\$ 112,986	\$ 282,403
Denominator		
Weighted average number of shares outstanding used to compute basic EPS	42,790,621	29,886,965
Effect of dilutive securities		
Dilution from exercise of options	356,129	734,365
Dilution from exercise of warrants	-	-
Weighted average number of shares outstanding used to compute diluted EPS	43,146,750	30,621,330
Net earnings per share		
Basic	\$ 0.00	\$ 0.01
Diluted	\$ 0.00	\$ 0.01

Six months ended	June 30, 2011	June 30, 2010
Numerator		
Net earnings and comprehensive income	\$ 1,089,794	\$ (42,575)
Denominator		
Weighted average number of shares outstanding used to compute basic EPS	42,753,936	29,287,480
Effect of dilutive securities		
Dilution from exercise of options	372,167	756,326
Dilution from exercise of warrants	-	-
Weighted average number of shares outstanding used to compute diluted EPS	43,126,103	30,043,806
Net earnings per share		
Basic	\$ 0.03	\$ 0.00
Diluted	\$ 0.03	\$ 0.00

The calculation of assumed exercise of stock options and warrants includes the effect of the dilutive options and warrants. Where their effect was anti-dilutive because their exercise prices were higher than the average market price of the Company's common shares at the end of the periods shown in the table, assumed exercise of those particular stock options and warrants were not included.

11. Income Taxes

a) Income Tax Expense

The income tax expense differs from the expected expense if the Canadian federal and provincial statutory income tax rates were applied to earnings (loss) from operations before income taxes. The principal factors causing these differences are shown below:

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Six months ended	June 30, 2011	June 30, 2010
Earnings before income taxes	\$ 1,058,730	\$ (42,575)
Statutory tax rate	26.50%	28.50%
Expected income tax payable (recovery)	281,000	(12,000)
Effect of statutory rate change	51,000	74,000
Change in valuation allowance	86,000	(67,000)
Scientific research and experimental development		
Investment tax credit recovery	(452,346)	-
Other	3,282	5,000
Income tax recovery	\$ (31,064)	\$ -
Deferred tax expense	226,000	-
Current income tax recovery	(257,064)	-
	\$ (31,064)	\$ -

The Company recognized Scientific Research and Experimental Development (SRED) and Investment Tax Credits (ITC) which were recovered from expenditures incurred in previous years. ITC claims are subject to approval from appropriate tax authorities and are recognized when successful.

b) Deferred Tax Assets & Liabilities

The tax effect of the temporary differences that give rise to deferred tax assets and liabilities are presented below:

	June 30, 2011	December 31, 2010
Non-capital loss carry forwards	\$ 1,879,000	\$ 2,009,000
Scientific research and experimental development pool	813,000	837,000
Share issue costs	176,000	206,000
Tax value of capital asset expenditure in excess of book value	68,000	83,000
Book value in excess of tax value on intangible assets	(1,183,000)	(1,242,000)
Valuation allowance	(446,000)	(360,000)
Total net deferred tax asset	1,307,000	1,533,000
Deferred asset	1,502,000	1,553,000
Deferred liability	(195,000)	(20,000)
	\$ 1,307,000	\$ 1,533,000

c) Loss Carry Forwards

At June 30, 2011, the consolidated Company has approximately \$7,517,000 of non-capital loss carry forwards available until 2031 (December 31, 2010 – approximately \$7,754,000), to reduce future years' income for income tax. The Company employs strategies within the corporate group to effectively utilize the benefits of these tax loss carry-forwards and to minimize income tax payable. The following table reflects tax loss carry-forwards prior to any tax losses that arise upon actual filing of the representative company tax returns:

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	June 30, 2011	December 31, 2010
Corporate	\$ 68,000	\$ 156,000
EMS	-	517,000
EMR	5,795,000	5,714,000
Hosting	1,654,000	1,367,000
	\$ 7,517,000	\$ 7,754,000

d) Investment Tax Credits on SRED Expenditures

At June 30, 2011, the Company and its subsidiaries have accumulated Investment Tax Credits totaling approximately \$259,000 (December 31, 2010 – Nil), which may be applied against future years' taxable income.

e) SRED Expenditure Pool Carry Forwards

At June 30, 2011 the Company and its subsidiaries have accumulated an SRED expenditures pool of approximately \$3,568,000 (December 31, 2010 – approximately \$3,568,000) which may be applied against future years' taxable income. The SRED expenditures pool may be carried forward indefinitely.

12. Segmented Information

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 provides applications for use in physicians' medical offices. The Cloudwerx Data Solutions (“Hosting”) division 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.

3 months ending June 30, 2011	EMS	EMR	Hosting	Corporate	Total
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
Additions to:					
Capital Assets	\$ 12,329	\$ 12,125	\$ 4,572	\$ 74,500	\$ 103,526
Intangible Assets	84,475	-	-	-	84,475

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3 months ending June 30, 2010	EMS	EMR	Hosting	Corporate	Total
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
Additions to:					
Goodwill	\$ 25,699	\$ 16,312	-	-	\$ 42,011
Capital Assets	-	146,860	79,258	79,372	305,490
Intangible Assets	78,794	94,900	-	-	173,694

6 months ending June 30, 2011	EMS	EMR	Hosting	Corporate	Total
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
Additions to:					
Capital Assets	\$ 20,040	\$ 15,742	\$ 26,031	\$ 107,167	\$ 168,980
Intangible Assets	142,673	59,271	-	-	201,944

6 months ending June 30, 2010	EMS	EMR	Hosting	Corporate	Total
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)
Additions to:					
Goodwill	\$ 25,699	\$ 16,312	-	-	\$ 42,011
Capital Assets	3,294	151,222	199,885	90,515	444,916
Intangible Assets	161,975	94,901	-	-	256,876

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The Company generated revenues from external customers located in the following geographic locations:

	June 30, 2011	June 30, 2010
Canada	\$ 11,420,230	\$ 9,444,260
United States	292,176	310,148
	\$ 11,712,406	\$ 9,754,408

13. Lease Commitments

As of June 30, 2011, the Company has various operating leases, primarily office rent, with remaining terms of more than one year. These leases have minimum annual lease commitments as follows:

2011 remaining	\$ 322,609
2012	630,311
2013	268,072
2014	143,441
2015	90,550
Thereafter	-
	\$ 1,454,983

14. Related Party Transactions

For the three month period ended June 30, 2011 and 2010 the Company paid compensation to key management personnel and the amounts are recognized as an expense during the reporting period.

15. 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.

16. 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.

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

17. Transition to IFRS

IFRS 1, *First Time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retroactively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings or if appropriate another category of equity unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

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 previous 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 period ended June 30, 2011, the year ended December 31, 2010 and 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.

(iv) Statement of cash flows

The transition from Canadian GAAP to IFRS has not had a material impact on the statement of cash flows.

QHR TECHNOLOGIES INC.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

AS AT JUNE 30, 2011

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 (i)	Share-based payment (ii)	Deferred tax asset/liability (iii)	Total effect of transition to IFRS	Restated under IFRS
ASSETS						
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
LIABILITIES						
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
SHAREHOLDERS' EQUITY						
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.
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2011

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
ASSETS					
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
LIABILITIES					
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
SHAREHOLDERS' EQUITY					
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.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2011

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		-	-	-
		-	-	-
Net earnings and comprehensive income		\$ 308,166	\$ (25,763)	\$ 282,403

QHR TECHNOLOGIES INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2011

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 equipment		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)	\$ (16,008)	\$ (42,575)

QHR TECHNOLOGIES INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2011

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
OPERATING ACTIVITIES				
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
INVESTING ACTIVITIES				
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)
FINANCING ACTIVITIES				
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