LED MEDICAL DIAGNOSTICS INC.

# CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

***(EXPRESSED IN U.S. DOLLARS)***

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements they must be accompanied by a notice of indication that the unaudited condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company and the Board of Directors of the Company.

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

Dr. David Gane
Chief Executive Officer
November 24, 2016

# LED MEDICAL DIAGNOSTICS INC.

Condensed Interim Consolidated Statements of Financial Position (unaudited)

(Expressed in U.S. Dollars)

| | Notes | | September 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash | | **$** | **341,108** | $ | 1,987,409 |
| Trade and other receivables | 4 | | **969,856** | | 1,565,853 |
| Inventory | 5 | | **956,548** | | 5,402,187 |
| Prepaid expenses and deposits | 6 | | **251,230** | | 467,351 |
| Total current assets | | | **2,518,752** | | 9,422,800 |
| **Non-current assets** | | | | | |
| Prepaid expenses and deposits | 6 | | **97,900** | | 104,830 |
| Property and equipment | 7 | | **240,528** | | 374,206 |
| Patents and intellectual property | 8 | | **-** | | 10,751 |
| | | **$** | **2,857,170** | $ | 9,912,587 |
| **Liabilities and Shareholders' Equity** | | | | | |
| **Current liabilities** | | | | | |
| Trade payables and accrued liabilities | 9 | **$** | **3,660,631** | $ | 6,685,719 |
| Deferred revenue | | | **195,766** | | 746,242 |
| Debenture | 11 | | **1,519,688** | | 1,246,338 |
| Total current liabilities | | | **5,376,085** | | 8,678,299 |
| **Non-current liabilities** | | | | | |
| Lease liability | 10 | | **79,680** | | 87,411 |
| Total liabilities | | | **5,455,765** | | 8,765,710 |
| **Shareholders' Equity** | | | | | |
| Share capital | 14 | | **36,135,128** | | 36,135,128 |
| Stock-based payment reserve | 15 | | **2,157,338** | | 1,912,668 |
| Warrants reserve | | | **6,537,724** | | 6,537,724 |
| Accumulated other comprehensive income | | | **474,458** | | 474,458 |
| Deficit | | | **(47,903,243)** | | (43,913,101) |
| | | | **(2,598,595)** | | 1,146,877 |
| | | **$** | **2,857,170** | $ | 9,912,587 |

*Nature and Continuance of Operations (Note 1)*

*Commitments (Note 10)*

*Subsequent Events (Note 22)*

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

Approved on behalf of the Board:

*"Dr. David Gane"*
____________________Chief Executive Officer
Dr. David Gane

*"Rodger Tourigny"*
______________________Director
Rodger Tourigny



LED MEDICAL DIAGNOSTICS INC.

# LED MEDICAL DIAGNOSTICS INC.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss (unaudited)

(Expressed in U.S. Dollars)

| | Notes | **Three months ended September 30, 2016** | Three months ended September 30, 2015 | **Nine months ended September 30, 2016** | Nine months ended September 30, 2015 |
|---|---|---|---|---|---|
| **Revenues** | | **$ 2,488,725** | $ 1,783,120 | **$ 8,303,466** | $ 7,494,642 |
| **Cost of goods sold** | | **1,871,511** | 1,453,370 | **6,079,487** | 5,516,403 |
| | | **617,214** | 329,750 | **2,223,979** | 1,978,239 |
| **Expenses** | | | | | |
| Sales and marketing | | **988,997** | 1,188,194 | **3,965,679** | 4,121,176 |
| Research and development | | **36,618** | 31,744 | **106,555** | 146,522 |
| Administration | | **423,309** | 417,105 | **1,542,361** | 1,575,754 |
| Stock-based compensation | **15** | **(13,202)** | 32,620 | **230,354** | 129,220 |
| Other operating expenses | | **21,122** | 44,294 | **224,863** | 215,422 |
| | | **1,456,844** | 1,713,957 | **6,069,812** | 6,188,094 |
| **Operating loss** | | **(839,630)** | (1,384,207) | **(3,845,833)** | (4,209,855) |
| **Other income/(expenses)** | | | | | |
| Change in fair value of Canadian dollar denominated warrants | | **-** | - | **-** | 94,610 |
| Foreign exchange gain / (loss) | | **23,843** | 38,977 | **(37,654)** | 74,348 |
| Interest income / (expense) | | **(39,697)** | (16,543) | **(106,655)** | (16,543) |
| | | **(15,854)** | 22,434 | **(144,309)** | 152,415 |
| **Net loss before income taxes** | | **(855,484)** | (1,361,773) | **(3,990,142)** | (4,057,440) |
| **Income tax recovery** | | **-** | (4) | **-** | (4,095) |
| **Net loss and comprehensive loss for the period** | | **($ 855,484)** | ($ 1,361,769) | **($ 3,990,142)** | ($ 4,053,345) |
| **Loss per share – basic and diluted** | **20** | **($ 0.01)** | ($0.01) | **($0.04)** | ($0.04) |
| **Weighted average number of shares outstanding – basic and diluted** | | **112,787,195** | 100,393,519 | **112,535,272** | 91,780,594 |

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



LED MEDICAL DIAGNOSTICS INC.

## LED MEDICAL DIAGNOSTICS INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency) (unaudited)

(Expressed in U.S. Dollars)

For the nine months ended September 30, 2016 and 2015

| | Number of Shares | Share Capital | Stock-based payments Reserve | Warrants Reserve | Deficit | Other Comprehensive Income | Total Shareholders' Equity (Deficiency) |
|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2015** | **88,608,352** | **$34,145,786** | **$1,568,645** | **$4,718,328** | **($38,737,202)** | **$474,458** | **2,170,015** |
| Shares issued for cash | 10,605,000 | 2,131,273 | - | - | - | - | 2,131,273 |
| Share issuance costs (restated – note 8) | - | (59,992) | - | - | - | - | (59,992) |
| Subscriber warrants issued pursuant to private placement | - | (1,371,587) | - | 1,371,587 | - | - | - |
| Finders warrants issued pursuant to private placement | - | - | - | 8,242 | - | - | 8,242 |
| Stock-based compensation | - | - | 54,407 | - | - | - | 54,407 |
| Stock-based compensation classified as consulting expense | - | - | 144,178 | - | - | - | 144,178 |
| Net loss comprehensive loss for the period | - | - | - | - | (1,489,924) | - | (1,489,924) |
| **Balance, March 31, 2015** | **99.213,352** | **$34,845,480** | **$1,767,230** | **$6,098,157** | **($40,227,127)** | **$474,458** | **$2,958,198** |
| Issuance of share on exercise of warrants | 1,060,167 | 172,397 | - | - | - | - | 172,397 |
| Settlement of warrant liability upon exercise of warrants | - | 68,262 | - | - | - | - | 68,262 |
| Issuance of share on exercise of DSU | 120,000 | - | - | - | - | - | - |
| Stock-based compensation | - | - | 42,193 | - | - | - | 42,193 |
| Stock-based compensation classified as consulting expense | - | - | 20,391 | - | - | - | 20,391 |
| Net loss comprehensive loss for the period | - | - | - | - | (1,201,651) | - | (1,201,651) |
| **Balance, June 30, 2015** | **100,393,519** | **$35,086,139** | **$1,829,814** | **$6,098,157** | **($41,428,778)** | **$ 474,458** | **$ 2,059,790** |
| Stock-based compensation | - | - | 32,620 | - | - | - | 32,620 |
| Stock-based compensation classified as consulting expense | - | - | 11,437 | - | - | - | 11,437 |
| Net loss comprehensive loss for the period | - | - | - | - | (1,361,769) | - | (1,361,769) |
| **Balance, September 30, 2015** | **100,393,519** | **$35,086,139** | **$1,873,871** | **$6,098,157** | **($42,790,547)** | **$474,458** | **$742,078** |

*The accompanying notes are an integral part of these condensed interim consolidated financial statements*

## LED MEDICAL DIAGNOSTICS INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency) (unaudited)

(Expressed in U.S. Dollars)

For the nine months ended September 30, 2016 and 2015

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2016** | **112,319,063** | **$ 36,135,128** | **$ 1,912,668** | **$ 6,537,724** | **($ 43,913,101)** | **$ 474,458** | **$ 1,146,877** |
| Stock based compensation | - | - | 203,422 | - | - | - | 203,422 |
| Net comprehensive loss for the period | - | - | - | - | (2,051,827) | - | (2,051,827) |
| **Balance, March 31, 2016** | **112,319,063** | **$ 36,135,128** | **$ 2,116,090** | **$ 6,537,724** | **($ 45,964,928)** | **$ 474,458** | **($ 701,528)** |
| Issuance of shares on exercise of DSU | 350,000 | - | - | - | - | - | - |
| Stock based compensation | - | - | 40,132 | - | - | - | 40,132 |
| Net comprehensive loss for the period | - | - | - | - | (1,082,831) | - | (1,082,831) |
| **Balance, June 30, 2016** | **112,669,063** | **$ 36,135,128** | **$ 2,156,222** | **$ 6,537,724** | **($ 47,047,759)** | **$ 474,458** | **($ 1,744,227)** |
| Issuance of shares with Debenture financing | 250,000 | - | - | - | - | - | - |
| Stock based compensation | - | - | 1,116 | - | - | - | 1,116 |
| Net comprehensive loss for the period | - | - | - | - | (855,484) | - | (855,484) |
| **Balance, September 30, 2016** | **112,919,063** | **$36,135,128** | **$2,157,338** | **$6,537,724** | **($47,903,243)** | **$ 474,458** | **($2,598,595)** |

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

# LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Cash Flow

(Expressed in U.S. Dollars)

For the nine months ended September 30, 2016 and 2015

| | **Nine months ended September 30, 2016** | Nine months ended September 30, 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss for the period | **$ (3,990,142)** | $ (4,053,345) |
| **Adjustments to net loss for items not involving cash**: | | |
| Depreciation and amortization | **262,101** | 207,180 |
| Finder's warrants issuance costs | **-** | 8,242 |
| Change in fair value of Canadian dollar denominated warrants | **-** | (94,610) |
| Unrealized foreign exchange loss | **-** | (19,774) |
| Lease liability | **(7,732)** | 62,616 |
| Stock-based compensation | **244,671** | 305,226 |
| **Changes in working capital assets and liabilities:** | | |
| Trade and other receivables | **595,997** | 613,317 |
| Inventory | **4,445,639** | 2,044,813 |
| Prepaid expenses and deposits | **223,051** | (424,368) |
| Trade payables and accrued liabilities | **(3,025,088)** | (2,634,338) |
| Deferred revenue | **(550,477)** | (732,286) |
| Cash flows used in operating activities | **(1,801,979)** | (4,717,327) |
| **Cash flows from investing activities** | | |
| Purchase of equipment | **(117,672)** | (40,905) |
| Cash flows (used in) provided by investing activities | **(117,672)** | (40,905) |
| **Cash flows from financing activities** | | |
| Issuance of units, net of issuance costs | **-** | 2,071,281 |
| Proceeds from exercise of warrants | **-** | 172,397 |
| Repayment of finance lease obligation | **-** | (3,190) |
| Proceeds from issuance of debenture, net of issuance costs | **273,350** | 1.275.818 |
| Cash flows provided by financing activities | **273,350** | 3.516.306 |
| **Decrease in cash** | **(1,646,301)** | (1.241.926) |
| **Foreign exchange effect on cash** | **-** | 19.774 |
| **Cash, beginning of year** | **1,987,409** | 2,396,994 |
| **Cash, end of period** | **341,108** | 1,174,842 |

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

LED Medical Diagnostics Inc. (" LED" or the "Company") was incorporated under the British Columbia Business Corporations Act on July 17, 2002 as 651192 B.C. Ltd. and changed its name to LED Medical Diagnostics Inc. on August 20, 2003. The Company's head office, principal address and records office are located at #810 – 580 Hornby Street Vancouver, British Columbia, Canada, V5J 3J1. The registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3.

The Company has developed, and markets, a medical device under the trade name VELscope®. The device is used in the dental industry to help identify oral soft tissue abnormalities including those which may be cancerous or precancerous and also to help define appropriate margins for surgical excision. The Company also features its Digital division that provides dentists and oral health specialists with advanced diagnostic imaging products and software.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing from lenders and shareholders. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available, that it will be on terms that are acceptable to the Company.

The Company has and continues to incur net and comprehensive losses and has negative cash flow from operations. The Company's ability to continue as a going concern is dependent on its available cash, its ability to find new sources of cash and its ability to continue to raise funds to support corporate operations. Consequently, material uncertainties exist which cast significant doubt upon the Company's ability to continue as a going concern. As at September 30, 2016 and as at the date of approval of these consolidated financial statements, the outcome of these activities is unknown and subject to considerable uncertainty. These consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties or if such adjustments would be material.

## 2. BASIS OF PRESENTATION

These unaudited consolidated interim financial statements of the Company, approved by the Board of Directors on November 22, 2016, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These unaudited consolidated interim financial statements have been prepared on the historical cost basis unless otherwise specified in the accounting policies (Note 3). The accounting policies set out below have been applied consistently to all periods presented in these unaudited interim consolidated financial statements. These unaudited consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries, however, they do not include all disclosures normally provided in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2015. Interim results are not necessarily indicative of the results expected for the fiscal year.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company recognizes revenue from sales of goods when it has transferred to the buyer the significant risks and rewards of ownership, it has no longer retained continuing managerial involvement to the degree usually associated with ownership nor has effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(Expressed in U.S. Dollars)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Principles of consolidation

Subsidiaries are entities controlled by LED. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries listed in the following table:

| Name of Subsidiary | Country of Incorporation | Ownership Interest | |
|---|---|---|---|
| | | September 30, 2016 | December 31, 2015 |
| LED Dental Inc. | Canada | 100% | 100% |
| LED Dental (U.S.) Ltd. | USA | 100% | 100% |
| Essentia Genetics Corp. (inactive) | Canada | 100% | 100% |

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The estimates used in determining the recorded amounts in these consolidated financial statements include the following:

*Allowance for doubtful accounts*

Management uses its best estimate of expected returns to estimate a sales return provision. If a reasonable estimate cannot be made, the Company defers revenue and costs relating to the sales at the time the goods are shipped.

*Impairment of long-lived assets and patents and intellectual property*

The determination of intellectual property impairment requires significant estimates and assumptions to determine the recoverable amount of an asset and/or cash-generating-unit ("CGU"), wherein the recoverable amount is the higher of fair value less costs of disposal and value in use. The value in use method involves estimating the net present value of future cash flows derived from the use of the asset and/or CGU, discounted at an appropriate rate.

The estimates of future cash flows require a number of key assumptions about future business performance. These assumptions and estimates are primarily based on the relevant business' historical experience and economic trends. These key estimates include the future revenue levels and operating expenses. The estimates are subject to a number of factors and it is possible that actual results could vary materially from management's estimates. Significant changes in the key assumptions utilized in the estimate of future cash flows could result in an impairment loss or reversal of an impairment loss.

*Estimated useful lives of long-lived assets*

Judgment is used to determine the components of an asset and the component's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, this could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

*Equity-settled stock-based compensation*

The Company estimates the cost of equity-settled stock-based compensation using the Black-Scholes option pricing model. The model takes into account an estimate of the expected life of the option, the current price of the underlying common share, the expected volatility, an estimate of future dividends on the underlying common share, the risk-free rate of return expected for an instrument with a term equal to the expected life of the option, and the expected forfeiture rate.

*Warranty provision*

The Company estimates warranty expense based on historical records, taking into account the likelihood of a warranty issue, estimated costs of warranty repair and total units in the market. The Company records a liability in respect of estimated future warranty costs. The actual cost that the Company may incur and the timing of the repairs to be carried out may differ significantly from the estimated accrual.

*Contingencies*

Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings, which include claims for monetary damages asserted against the Company and its subsidiaries. The adequacy of provisions is regularly assessed as new information becomes available.

The Company does not record contingent assets.

The judgments used in applying the Company's significant accounting policies include the following:

*Determination of cash-generating units ("CGUs")*

The Company's assets are grouped into cash-generating units ("CGUs") based on their ability to generate separate identifiable cash flows. The determination of CGUs involves an assessment regarding the interdependency of cash inflows, and the Company's organizational structure.

*Determination of functional currency*

The consolidated financial statements are presented in U.S. dollars. The functional currency of each of the Company's operating entities is determined using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in U.S. dollars, which is the functional, and presentation currency of the parent. The functional currencies of the subsidiaries are as follows:

| Name of Subsidiary | Functional currency ($) |
|---|---|
| LED Dental Inc. | U.S. |
| LED Dental (U.S.) Ltd. | U.S. |
| Essentia Genetics Corp. (inactive) | U.S. |

Foreign currency translation

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of operations in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition. All of the Company's financial assets are classified as loans and receivables.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within twelve months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive income, except for foreign exchange gains and losses associated with monetary available-for-sale financial assets and impairment losses which are recorded in profit or loss.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the instruments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

Cash and cash equivalents

Cash equivalents include highly liquid Canadian dollar denominated guaranteed investment certificates, which are readily convertible to contracted amounts of cash without penalty.

The Company has no cash equivalents as of September 30, 2016, December 31, 2015 or September 30, 2015.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of operations and comprehensive loss during the financial period in which they are incurred. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is calculated on a straight-line method to write off the cost of the assets over their estimated useful lives. The depreciation rates applicable to each category of equipment are as follows:

| | | |
|---|---|---|
| Office equipment | 5 years | straight-line method |
| Computer equipment | 3 years | straight-line method |
| Manufacturing tooling | 2 years | straight-line method |
| Leasehold improvements | term of lease | straight-line method |
| Demo equipment | 1-3 years | straight-line method |

Intangible assets

Intangible assets, whether purchased or self-created, are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Intangible assets, which consist of acquired patents, intellectual property and related know-how, have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses over their useful lives. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized whenever the carrying amount of the intangible assets exceed their recoverable amount.

Intangible assets are being amortized using the straight-line method over a 13-year period commencing in 2004.

Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless the specific criteria for deferral and amortization have been met. To date, the Company has not capitalized any development costs.

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets (which include property and equipment and patents and intellectual property) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the statement of operations.

The recoverable amount of assets is the greater of an asset's fair value less costs of disposal 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 the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equity

Share capital represents the value of the shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital.

From time to time the Company issues units consisting of common shares and common share purchase warrants. The Company estimates the fair value of the warrants based on their market price on the date of the issuance of the units. The residual difference, if any, between the unit price and the fair value of each warrant represents the fair value attributable to each common share. Any transaction costs associated with the issuance of units are apportioned between the common shares and warrants based on their relative fair values. Deficit includes all current and prior period losses.

*Reversal of impairment loss*

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Deferred revenue

The Company defers revenue and costs relating to sales if there is a right to return or if transfer of ownership has not occurred as of the reporting date. In these cases, revenue is recognized upon the maturation of the right to return or ownership has been completed. Additionally, the Company has an annual support program and the revenue is recognized over the term of the support agreement.

Leases

Leases of equipment where substantially all the risks and benefits incidental to the ownership of the asset are transferred to the Company are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the leased equipment or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Income taxes

*Current income tax:*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

*Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and is reduced only to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority, or if relate to different taxable entities, the entities intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Changes in the expected operating results, enacted tax rates, legislation or regulations, and the Company's interpretations of income tax legislation will result in adjustments to the expectations of future timing difference reversals and may require material deferred tax adjustments.

Stock-based payments

The Company operates an employee stock option plan. Historically, stock-based payments to employees have been measured at the fair value of the instruments issued and amortized over the vesting periods. Stock-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock-based payment reserve. The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The Black-Scholes option pricing model was developed for use in estimating the fair value of stock options and compensatory warrants that have no vesting provisions and are fully transferable. Also, option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

The Company has a Deferred Share Unit Plan ("DSU Plan") for the Company's Directors, Executive Officers and Service Providers. The Company recognizes compensation expense for Deferred Share Units ("DSUs") based on the market price of the Company's stock. A DSU is convertible to shares only, and are valued by reference to the fair value of the equity instruments granted. All of the Company DSUs are equity-settled instruments (See Note 16).

Warrants

All warrants granted are valued using the fair value method which is determined by the Black-Scholes option pricing model with assumptions for risk free interest rates, dividend yields, volatility factors and an expected life of the warrants. As a result of the change in functional currency to U.S. dollars on January 1, 2012, the Company elected to reclassify from equity to liabilities the outstanding Canadian dollar denominated warrants and revalue every period with change in valuation being expensed. Changes in the underlying assumptions can materially affect the fair value estimates.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Research and development tax credits

Research and development tax credits are accounted for using the cost reduction method. Accordingly, tax credits are recorded as a reduction of the related expenses or the capitalized costs when recoverability is reasonably assured.

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for its own shares held. Diluted EPS is determined by adjusting the profit attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for its own shares held, for the effects of all dilutive potential common shares. Dilutive EPS has not been calculated as the Company is in a net loss position for the periods resulting in an anti-dilutive quantification.

**New Standards and Interpretations Adopted as of January 1, 2016**

For the nine month period ended September 30, 2016, the Company has not applied any new and revised IFRSs since the IFRSs that became effective were not applicable to the Company.

**New Standards and Interpretations Not Yet Effective**

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company is currently assessing the impact of the following standards on the consolidated financial statements and intends to adopt these standards when they become effective.

**IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

**IFRS 9 – Financial Instruments**

IFRS 9 replaces the current IAS39 - Financial Instruments Recognition and Measurement. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

(Expressed in U.S. Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### IFRS 16 – Leases

In January 2016, the IASB released IFRS 16 *Leases*, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor).

All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 *Leases* and, instead, introduces a single lessee accounting model. When applying that model, a lessee is required to recognize:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early application permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements

## 4. TRADE AND OTHER RECEIVABLES

| | **September 30, 2016** | December 31, 2015 |
|---|---|---|
| Trade accounts receivable | **$ 935,736** | $ 1,549,658 |
| Employee Travel advances | **20,800** | - |
| Goods and services tax receivable | **13,320** | 16,195 |
| | **$ 969,856** | $ 1,565,853 |

At September 30, 2016 and December 31, 2015 no accounts receivable is due beyond one year. The fair value of accounts receivable approximates their carrying value as at September 30, 2016 and December 31, 2015. During the nine months ended September 30, 2016, the Company has written off accounts receivable of $63,005 (year ended December 31, 2015 - $25,253).

## 5. INVENTORY

| | **September 30, 2016** | December 31, 2015 |
|---|---|---|
| VELscope | **$ 373,797** | $ 228,211 |
| Digital Products | **582,751** | 5,173,976 |
| | **$ 956,548** | $ 5,402,187 |

Inventory is valued at the lower of cost and net realizable value. Cost includes the costs of purchases net of vendor allowances. The Company estimates net realizable value as the amount that inventories are expected to be sold. Inventories are carried at lower of cost or net realizable value. When the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices, the write-down of inventories is recognized as an expense. Storage and shipping costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

(Expressed in U.S. Dollars)

## 6. DEPOSIT

The Company entered into an eight-year lease agreement for premises in Atlanta, Georgia. A requirement of the agreement was for a letter of credit to be issued to the lessor in the amount of $280,000. If the Company is in breach of the terms and conditions of the agreement, the lessor is entitled to the funds being held. If conditions are not breached over the course of the agreement, the restricted cash was reduced by $120,000 in March 2016, and $90,000 was reduced on September 1st, 2016. These funds will be issued to the Company with the remaining balance being held until the duration of the agreement is complete. As of September 30, 2016, the Company is in compliance with the terms and conditions of the agreement.

## 7. PROPERTY AND EQUIPMENT

The following table presents details of movement in the carrying value of property and equipment by asset type:

**Cost**

| | Equipment | Computer Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|
| **Balance, December 31, 2015** | **$ 635,426** | **$ 57,994** | **$ 58,706** | **$ 752,126** |
| Additions | 103,783 | 13,884 | | 117,668 |
| Disposals | (175,759) | (10,097) | | (185,856) |
| **Balance, September 30, 2016** | **$ 563,450** | **$ 61,781** | **$ 58,706** | **$ 683,937** |

**Accumulated Depreciation**

| | Equipment | Computer Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|
| **Balance, December 31, 2015** | **$ (343,981)** | **$ (27,360)** | **$ (6,578)** | **$ (377,919)** |
| Depreciation | (229,464) | (15,951) | (5,931) | (251,346) |
| Disposals | 175,759 | 10,097 | | 185,856 |
| **Balance, September 30, 2016** | **$ (397,686)** | **$ (33,214)** | **$ (12,509)** | **$ (443,409)** |

**Carrying Value**

| | Equipment | Computer Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|
| Balance, December 31, 2015 | $ 291,445 | $ 30,633 | $ 52,128 | $ 374,206 |
| **Balance, September 30, 2016** | **$ 165,765** | **$ 28,567** | **$ 46,197** | **$ 240,528** |

(Expressed in U.S. Dollars)

## 8. PATENTS AND INTELLECTUAL PROPERTY

The following table presents details of movement in the carrying value of the patents:

**Cost**

| | Patents |
|---|---|
| **Balance, January 1, 2015** | **$ 335,467** |
| Additions | - |
| **Balance, December 31, 2015** | **$ 335,467** |
| Additions | - |
| **Balance, September 30, 2016** | **$ 335,467** |

**Accumulated Amortization**

| | |
|---|---|
| **Balance, January 1, 2015** | **$ (298,910)** |
| Amortization | (25,806) |
| **Balance, December 31, 2015** | **$ (324,716)** |
| Amortization | (10,751) |
| **Balance, September 30, 2016** | **$ (335,467)** |

**Carrying Value**

| | |
|---|---|
| Balance, December 31, 2015 | $ 10,751 |
| **Balance, September 30, 2016** | **$ 0** |

On August 31, 2003, the Company signed a technology agreement amended on February 10, 2004, for the purchase of certain patents, and the related intellectual property and know-how, in respect of a fluorescence scope system for dermatologic diagnosis. The patents will expire in 2017.

## 9. TRADE PAYABLES AND ACCRUED LIABILITIES

| | **September 30, 2016** | December 31, 2015 |
|---|---|---|
| Trade payables | **$ 2,664,282** | $ 5,128,576 |
| Accrued liabilities | **643,288** | 1,051,974 |
| Warranty provision | **-** | 4,371 |
| State and Provincial sales tax payable | **353,061** | 500,798 |
| | **$ 3,660,631** | $ 6,685,719 |

The Company warrants that its products will operate substantially in conformity with product documentation. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

(Expressed in U.S. Dollars)

### 10. LEASE OBLIGATIONS AND COMMITMENTS

a) The Company has operating leases with respect to its operating premises in Vancouver, B.C., and Atlanta, Georgia. Future minimum lease payments as at September 30, 2016 are as follows:

| | |
|---|---|
| 2016 | $ 49,556 |
| 2017 | 160,503 |
| 2018 | 157,089 |
| 2019 | 161,789 |
| 2020 | 166,655 |
| 2021 and thereafter | 244,951 |
| **Total future minimum lease payments** | **$ 940,543** |

b) The Company was paying royalties at a rate of 1.5% of VELscope sales to the British Columbia Cancer Agency prior to December 31, 2010. The rate was subsequently revised to 0.75% and retrospectively applied to prior periods resulting in a reversal of previously accrued royalties. On August 1, 2014, the Company entered into an agreement with a former employee to pay a royalty at a rate of 2% of all VELscope sales until January 1, 2018. During the nine months ended September 30, 2016, the Company incurred royalties of $28,852.

c) The Company entered into a one year, renewable, supplier agreement on May 15, 2015 that requires the Company to make minimum annual purchases for the duration of the agreement. Minimum required purchase would amount to $620,000 EURO.

d) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. These matters are subject to inherent uncertainties.

On April 28, 2015, Daniel J. Edelman Inc. ("Edelman") filed a civil claim for alleged unpaid invoices against LED Medical Diagnostics Inc. and LED Dental Inc. ("LED"). Edelman alleges a contract of service dated December 21, 2011, wherein Edelman would perform public relations services on a contract rate of pay and would prepare and deliver a monthly invoice for LED representing the agreed services provided and expenses incurred by Edelman. Edelman claims that per the contract between the parties, they had delivered monthly invoices to LED representing services rendered, expenses incurred by Edelman and accumulated late fees, the sum of which that has not been paid by LED amounts to CAD $121,462 plus interest and late fees despite demand and given all just discounts. LED has filed a response to the civil claim, denying liability.

### 11. DEBENTURE

On September 25, 2015 (“The closing date”), the Company issued 50 USD denominated debenture units with a principal amount of $10,000 USD per unit and gross proceeds of $500,000 USD maturing one year from the closing date. Each unit is attached with a 10% coupon and 7,143 common share purchase warrants of the Company at an exercise price of $0.28 USD. These warrants are exercisable at any time up to and including the date, which is one year from the closing date. Transaction costs associated with this issuance were $10,020 USD and have been netted against the debenture proceeds received.

On July 22, 2015 (“The closing date”), the Company issued 110 CDN denominated debenture units with a principal amount of $10,000 CDN per unit and gross proceeds of $1,100,000 CDN maturing one year from the closing date. Each unit is attached with a 10% coupon and 5,950 common share purchase warrants of the Company at an exercise price of $0.28 USD. These warrants are exercisable at any time up to and including the date, which is one year from the closing date. Transaction costs associated with this issuance were $55,055 CDN ($38,392 USD) and have been netted against the debenture proceeds received.

### 11. DEBENTURE (cont’d)

(Expressed in U.S. Dollars)

On July 26, 2016 ("The closing date"), the Company senior secured debenture with a principal amount of $385,000 CDN maturing one year from the closing date. The debenture is attached with a 13% coupon and 250,000 common shares of the Company. Transaction costs associated with this issuance were $28,952 CDN ($20,556 USD) and have been netted against the debenture proceeds received.

## 12. RELATED PARTY TRANSACTIONS

Related parties include key management, the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

During the periods ended September 30, 2016 and September 30, 2015, the Company paid or accrued the following compensation expenses to key personnel of the Company:

| | **Three months ended September 30, 2016** | Three months ended September 30, 2015 | **Nine months ended September 30, 2016** | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Short-term compensation | $131,876 | $ 147,616 | $ 375,138 | $ 554,615 |
| Share-based payments | 85 | 15,733 | 180,815 | 50,188 |

## 13. WARRANTS

The following table summarizes the warrant liability attributable to Canadian dollar denominated warrant transactions that occurred during the periods ended:

| | **September 30, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **Number of Warrants** | **Weighted average exercise price** | Number of Warrants | Weighted average exercise price |
| | | **(CDN$)** | | (CDN$) |
| Warrants outstanding, beginning of year | - | - | 3,393,667 | 0.20 |
| Issued | - | - | - | - |
| Exercised | - | - | (1,060,167) | 0.20 |
| Expired | - | - | (2,333,500) | 0.20 |
| **Warrants outstanding, end of period** | **-** | **-** | - | - |
| **Warrants exercisable, end of period** | **-** | **-** | **-** | **-** |

## 13. WARRANTS (cont'd)

(Expressed in U.S. Dollars)

The following table summarizes the US dollar denominated warrant transactions that occurred during the periods ended:

| | **September 30, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **Number of Warrants** | **Weighted average exercise price** | Number of Warrants | Weighted average exercise price |
| | | **(US$)** | | (US$) |
| Warrants outstanding, beginning of period | 34,026,130 | $ 0.35 | 15,771,876 | 0.50 |
| Issued | - | - | 18,254,254 | 0.23 |
| Exercised | - | - | - | - |
| Expired | (1, 011,650) | - | - | - |
| **Warrants outstanding, end of period** | **33,014,480** | **0.35** | **34,026,130** | **0.36** |
| **Warrants exercisable, end of period** | **33,014,480** | **0.35** | **34,026,130** | **0.36** |

The following table summarizes information about the Company's warrants outstanding at September 30, 2016:

| | **Warrants Outstanding** | | **Warrants Exercisable** | |
|---|---|---|---|---|
| **Exercise prices** | **Number Outstanding** | **Weighted Average Remaining Term (Years)** | **Number Exercisable** | **Weighted Average Remaining Term (Years)** |
| 0.20 (US$) | 6,573,604 | 1.15 | 6,573,604 | 1.15 |
| 0.25 (US$) | 10,669,000 | 0.40 | 10,669,000 | 0.40 |
| 0.50 (US$) | 15,771,876 | 0.07 | 15,771,876 | 0.07 |
| | **33,014,480** | **0.39** | **34,026,130** | **0.39** |

The following table summarizes information about the Company's warrants outstanding at December 31, 2015

| | **Warrants Outstanding** | | **Warrants Exercisable** | |
|---|---|---|---|---|
| **Exercise prices** | **Number Outstanding** | **Weighted Average Remaining Term (Years)** | **Number Exercisable** | **Weighted Average Remaining Term (Years)** |
| 0.20 (US$) | 6,573,604 | 1.90 | 6,573,604 | 1.90 |
| 0.25 (US$) | 10,714,000 | 1.15 | 10,714,000 | 1.15 |
| 0.28 (US$) | 654,500 | 0.56 | 654,500 | 0.56 |
| 0.28(US$) | 357,150 | 0.73 | 357,150 | 0.73 |
| 0.50 (US$) | 15,771,876 | 0.82 | 15,771,876 | 0.82 |
| | **34,026,130** | **1.13** | **34,026,130** | **1.13** |

(Expressed in U.S. Dollars)

## 14. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

| | Number of common shares | Amount |
|---|---|---|
| **Outstanding, January 1, 2016** | **112,319,063** | **$36,529,837** |
| Issuance of shares on exercise of DSU | 350,000 | **-** |
| Issuance of shares for financing fee | 250,000 | - |
| **Outstanding, September 30, 2016** | **112,919,063** | **$36,529,837** |

## 15. STOCK-BASED PAYMENTS

Commencing in 2005, the Company has granted, by way of directors' resolutions, share options to directors, officers, employees and other service providers at the exercise price set out at the grant date. The Company has a rolling incentive stock option plan. Under the terms of the Company's stock option plan, the Board of Directors may grant options to directors, officers, employees, consultants and service providers equal to 10% of issued and outstanding common shares of the Company from time to time on a rolling basis. The plan provides for the granting of options at the closing price of the Company's stock on the day prior to the grant date. The option plan states that the Board of Directors are the administrators of the plan with defined vesting period for options granted. A summary of the Company's outstanding share options is presented below:

| | Outstanding options | |
|---|---|---|
| | **Number of common shares** | **Weighted average exercise price in (CDN$)** |
| **Outstanding, January 1, 2015** | **6,662,000** | **$ 0.40** |
| Options granted | 1,355,000 | 0.34 |
| Options forfeited | (857,000) | 0.37 |
| **Outstanding, December 31, 2015** | **7,160,000** | **$0.39** |
| Options granted | 3,775,000 | 0.18 |
| Options forfeited | (1,730,335) | 0.28 |
| Options expired | (3,251,000) | 0.47 |
| **Outstanding, September 30, 2016** | **5,953,665** | **$0.25** |

(Expressed in U.S. Dollars)

### 15. STOCK-BASED PAYMENTS (cont'd)

The options outstanding at September 30, 2016 have an exercises price in the range of $0.18 to $0.49 CDN (2015 - $0.28 to $0.54) and a weighted average contractual life of 5.2 years (2015 – 2.62 years). The amount of options exercisable at the end of September 30, 2016 was 5,032,665.

The following table illustrates the assumptions of the option pricing models:

| Grant date of Share Options | Share Price | Exercise Price | Annual dividend yield of Share options | Volatility | Risk-Free Interest rate | Expected life of the the Share options |
|---|---|---|---|---|---|---|
| January 9, 2013 | $0.25 | $0.30 | Nil | 136.43% | 1.24% | 3 years |
| September 18, 2013 | $0.39 | $0.40 | Nil | 149.63% | 1.46% | 3 years |
| October 24, 2013 | $0.54 | $0.54 | Nil | 146.76% | 1.18% | 3 years |
| November 20, 2013 | $0.485 | $0.49 | Nil | 144.75% | 1.23% | 3 years |
| December 13, 2013 | $0.40 | $0.49 | Nil | 142.92% | 1.18% | 3 years |
| December 20, 2013 | $0.355 | $0.45 | Nil | 142.48% | 1.17% | 3 years |
| February 11, 2014 | $0.445 | $0.46 | Nil | 135.06% | 1.20% | 3 years |
| May 27, 2014 | $0.42 | $0.45 | Nil | 118.07% | 1.14% | 3 years |
| August 22, 2014 | $0.48 | $0.49 | Nil | 125.00% | 1.11% | 3 years |
| September 16, 2014 | $0.45 | $0.45 | Nil | 124.68% | 1.16% | 3 years |
| September 17, 2014 | $0.45 | $0.435 | Nil | 124.55% | 1.19% | 3 years |
| September 22, 2014 | $0.45 | $0.44 | Nil | 124.78% | 1.18% | 3 years |
| January 27, 2015 | $0.27 | $0.28 | Nil | 113.22% | 0.51% | 8 years |
| February 02, 2015 | $0.23 | $0.25 | Nil | 113.12% | 0.41% | 2 years |
| February 26, 2015 | $0.24 | $0.25 | Nil | 112.22% | 0.51% | 5 years |
| February 26, 2015 | $0.24 | $0.25 | Nil | 112.22% | 0.51% | 3 years |
| February 5, 2016 | $0.17 | $0.18 | Nil | 108.37% | 0.38% | 8 years |
| May 25, 2016 | $0.13 | $0.18 | Nil | 107.90% | 0.63% | 3 years |
| May 25, 2016 | $0.13 | $0.18 | Nil | 107.90% | 0.63% | 2 years |

For the nine months ended September 30, 2016, the Company recognized $230,354 of stock-based compensation expense (2015 – $198,498). Forfeiture rate is estimated based upon prior year forfeitures as a percentage of the total amount of options issued.

### 16. DEFERRED SHARE UNITS

The Company has a DSU Plan for the Company's Directors, Executive Officers and Service Providers ("Eligible Person").

DSU activity is presented below:

| | Number of DSUs | Weighted Average exercised price |
|---|---|---|
| **Outstanding, December 31, 2015** | **710,000** | **0.25** |
| Exercised | (350,000) | 0.25 |
| **Outstanding, September 30, 2016** | **360,000** | **0.25** |

All DSU's are exercisable as of September 30, 2016. The contractual life is dependent upon service provided to the Company. Options expire on December 15 of the 1st calendar year after service is terminated. During the six months ended September 30, 2016, the Company recorded an expense of $Nil (2015 – $NIL).

(Expressed in U.S. Dollars)

## 17. SEGMENTED INFORMATION

The Company operates in a single geographical segment, being North America, and a single reporting segment, the development and commercialization of medical devices based on its proprietary imaging platform to aid in the detection and treatment of disease in human tissues. In addition, the Company provides dental and oral health specialists with advanced diagnostic imaging products and software.

The Company's operating segment is reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ("CEO"). The CEO is considered the chief operating decision-maker ("CODM") and has the authority for resource allocation and is responsible for assessing the Company's performance.

## 18. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

- To maintain financial strength and to protect its ability to meet its on-going liabilities;
- To safeguard the Company's ability to continue as a going concern in order to pursue further development of medical devices so that it can provide adequate returns for shareholders and benefits for other stakeholders**;**
- To fund capital projects for facilitation of business expansion provided there is sufficient liquidity of capital to enable the internal financing;
- To maximize returns for shareholders over the long-term; and
- To maintain a capital base so as to maintain investor, creditor and market confidence.

The Company considers the items included in shareholders' equity (deficiency) as capital. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or return capital to shareholders. The Company is not subject to externally imposed capital requirements. There were no changes to the approach to capital management during the period.

## 19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

| | **September 30, 2016** | December 31, 2015 |
|---|---|---|
| Loans and receivables | | |
| Cash | $ 341,108 | $ 1,987,409 |
| Receivables | 969,856 | 1,565,853 |
| | **$ 1,310,964** | **$ 3,553,262** |

(Expressed in U.S. Dollars)

## 19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Financial liabilities included in the statement of financial position are as follows:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Other financial liabilities: | | |
| Trades payable and accrued liabilities | $ 3,660,631 | $ 6,685,719 |
| Deferred revenues | 195,765 | 746,242 |
| Debenture | 1,519,688 | 1,246,338 |
| | **$ 5,376,084** | **$ 8,678,299** |

Fair value

Due to the short-term nature of cash, trade and other receivables, trade payables and accrued liabilities and deferred revenue, their fair values approximate their carrying amounts.

The fair value of the Company's debenture is estimated by a discounted cash flow model based on market rate of interest existing at the end of the reporting period. Management believes that there has been no significant change in market interest rate since the inception of the debenture and as such the fair value of the debenture approximates the carrying value given that an immaterial amount of transaction cost was allocated to the debenture at inception.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Details of the Company's debentures and information about the fair value hierarchy as at September 30, 2016 and December 31, 2015 are as follows:

| | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Fair value at September 30, 2016 |
|---|---|---|---|---|
| Debenture | - | $1,519,688 | - | $ 1,519,688 |
| **Total** | - | $1,519,688 | **-** | $ 1,519,688 |

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risks arising from its cash and restricted cash and receivables. The Company manages credit risk by placing cash with major Canadian financial institutions. With respect to receivables, the Company performs ongoing credit evaluations of its customers' financial condition.

The Company monitors collectability of receivables on an on-going basis to determine credit risk. In order to mitigate credit risk, the Company offers credit terms to established customers. Other customers are required to pay in advance or by credit card, prior to shipping of the product. At September 30, 2016, no accounts receivable is due beyond one year.

(Expressed in U.S. Dollars)

**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

As at September 30, 2016 and December 31, 2015 the Company's exposure to credit risk for these financial instruments was as follows:

| | **September 30, 2016** | **December 31, 2015** |
|---|---|---|
| Cash | $ 341,108 | $ 1,987,409 |
| Receivables | 969,856 | 1,565,853 |
| | **$ 1,310,964** | **$ 3,553,262** |

Trade accounts receivable balances were aged as follows in the below table. It does not include goods and services tax receivable of $13,320 and employee travel advances of $20,800 as at September 30, 2016 (December 31, 2015 – $16,195, nil).

| | **September 30, 2016** | December 31, 2015 |
|---|---|---|
| Current | $ 812,930 | $ 1,267,418 |
| 31-60 days | 49,081 | 18,946 |
| Over 60 days | 73,725 | 279,489 |
| | **$ 935,736** | **$ 1,565,853** |

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 a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company manages its liquidity risk associated with its financial liabilities through the use of cash flow generated from operations, and the issuance of additional equity primarily through private placements, as required to meet the payment requirements of maturing financial liabilities.

The contractual maturities of the Company's trade payables are listed below. Refer to the Note 10 and 11 for other contractual maturities, lease obligations and commitments that are not included in the table below.

Trade payables were aged as follows as at September 30, 2016 and December 31. 2015 respectively and do not include accrued liabilities, warranty provision and state and provincial sales tax payable. All trade payables are current liabilities:

| | **September 30, 2016** | December 31, 2015 |
|---|---|---|
| Current | **$ 1,601,693** | $ 2,062,258 |
| 31-60 days | **274,105** | 2,573,223 |
| Over 60 days | **788,484** | 493,095 |
| | **$ 2,664,282** | $ 5,128,576 |

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities at September 30, 2016:

| | **Within one year** | **Between one and five years** |
|---|---|---|
| Accounts payable and accrued liabilities | **$3,660,631** | $ - |
| Deferred revenue | **195,765** | - |
| Debenture | **1,519,688** | - |
| | **$ 5,376,084** | **$ -** |

(Expressed in U.S. Dollars)

### 19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

The ability of the Company to make the aforementioned payment requirements related to maturing financial liabilities in the near term is dependent on the ability to obtain a line of credit and other debt instruments and the timing of cash flows from operations. The ability to obtain additional financing is dependent on continued access to debt and/or equity markets, which may not be available on acceptable terms. In the event that debt or equity capital is not available on acceptable terms, the Company may need to explore other strategic alternatives.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is limited to the portion of the Company's cash held in bank accounts that earn interest and debentures that pay interest. There is no interest rate risk associated with the debentures as they carry a fixed rate of interest.

Due to the limited and short-term nature of these financial instruments, fluctuations in the interest rates will not have a significant impact on their fair value. As at September 30, 2016, the Company had not entered into any derivative contracts to manage this risk.

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States. The Company's functional currency is the U.S. dollar. The Company has not hedged its exposure to currency fluctuations. The following is a summary of the Company's exposure to currency risk:

| | **September 30, 2016** | December 31, 2015 |
|---|---|---|
| | **CDN** | CDN |
| Cash | $ 16,989 | $ 871,646 |
| Account Receivable/(deposit) | 15,441 | 65,929 |
| Trade payable and accrued liabilities | (920,869) | (340,513) |
| **Net statement of financial position exposure** | **$ (888,439)** | **$ 597,062** |

Assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar against the U.S. dollar would not materially affect the loss from operations.

### 20. LOSS PER SHARE

Profit attributable to ordinary shareholders (basic and diluted)

Earnings per share is calculated using Net Income (Loss)/Average Shares Outstanding.

| | **Three months ended September 30, 2016** | Three months ended September 30, 2015 | **Six months ended September 30, 2016** | Six months ended September 30, 2015 |
|---|---|---|---|---|
| Loss for the period attributable to shareholders | $ 855,484 | $ 1,361,769 | $ 3,990,142 | $ 4,053,345 |
| Loss attributable to ordinary shareholders (basic and diluted) | 855,484 | 1,361,769 | 3,990,142 | 4,053,345 |

## 21. EMPLOYEE BENEFITS

For the nine months ended September 30, 2016, the Company has incurred $3,487,575 of employee benefits. Employee benefits include wages, commissions, payroll taxes, share-based payments and employee benefits.

## 22. SUBSEQUENT EVENTS

On October 7, 2016, the Company completed its previously announced financing of CDN$500,000 through the issuance of 12% senior secured debentures of the Company (the "Debentures") maturing after 24 months. The financing included in the aggregate principal amount of Cdn$500,000; and a total of 750,000 common shares of the Corporation.

On October 7, 2016, the Company amended the 2015 Debentures by extending the terms to five years and increasing the interest rates to 13%. Common shares of the Corporation in the amount of 1,059,453 were issued to the holders of the 2015 Debentures.