LED MEDICAL DIAGNOSTICS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of May 29, 2019 and should be read in conjunction with the audited consolidated financial statements and related notes of LED Medical Diagnostics Inc. ("LED" or the "Company") as at and for the year ended December 31, 2018 (prepared in accordance with International Financial Reporting Standards or "IFRS"). All amounts are presented in United States (U.S) dollars unless otherwise noted. Additional information about the Company, including the Company's Annual Information Form ("AIF"), are available on SEDAR at www.sedar.com.

DISCLAIMER FOR FORWARD-LOOKING STATEMENTS

The following Management's Discussion and Analysis contains statements, which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation. Such forward-looking statements or information includes financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions and the Company's intention to expand its technology beyond dental applications including "costs of production", "capital expenditures", "costs and timing of the development of new products", "hedging practices", "currency exchange rate fluctuations", "requirements for additional capital", "government regulation of medical device operations" and "insurance coverage". Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "would", "could", "might" or "will be taken", "occur" or "be achieved" or the negative connotation thereof. Persons reading this Management's Discussion and Analysis are cautioned that such statements or information are only predictions, and that the Company's actual future results or performance may be materially different. Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: history of losses; operational risk; debt repayment risk; distributor risks; disruptions in production; seasonality; working capital requirements; seasonality; management's estimates; regulatory requirements; reliance on few suppliers; dependence on limited third party product vendors; reliance on subcontractors; failure to realize benefits currently anticipated; operating cost fluctuations; fluctuations in exchange rates; taxation; economic conditions; additional financing risk; research and development risk; stock price volatility; product development and technological change risk; sales and marketing and strategic alliances risk; dependence on small number of customers; the Company not adequately protecting its intellectual property; competition risk; fluctuations in quarterly results; dependence upon key personnel and hiring; acquisition risk; risks related to product defects and product liability; future share sale risk; management of growth risk and including, but not limited to, other factors described in the Company's reports filed on SEDAR, including its financial statements and management's discussion and analysis for the year ended December 31, 2018. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect the Company's forward-looking information. These and other factors should be considered carefully, and readers should not place undue reliance on such forward-looking information. All forward-looking statements made in this Annual Information Form are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

LED was incorporated under the BCBCA on July 17, 2002 as 651192 B.C. Ltd. and changed its name to LED Medical Diagnostics Inc. on November 6, 2003. LED's head office is located at 580 Hornby Street, Unit 810, Vancouver, B.C. V6C 3B6. LED's registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3. The Company is listed on the TSX Venture Exchange (TSX-V) under the trading symbol LMD.

As of the date of this report, LED has three wholly-owned subsidiaries, LED Dental Ltd., which was incorporated on August 3, 2006 under the laws of Washington state; LED Dental Inc., which was incorporated on January 18, 2006 under the BCBCA, and Apteryx, Inc. acquired on February 10, 2017 was incorporated under the laws of Ohio state.

General Development of the Business

LED's first product, the VELscope®, a patented hand-held medical device for the early discovery of oral mucosal lesions has experienced wide spread adoption in the North American dental market and is the global market leader in this product category. In 2014, the Company established its US based operations in Atlanta, Georgia and began expansion and diversification of its imaging device portfolio with the launch of the Tuxedo intraoral digital sensor and through distribution agreements with select imaging device manufacturers including RAY America with the RAYSCAN extra oral radiographic imaging product line. In February 2017, LED acquired Apteryx Inc., an Ohio based dental imaging software company. Since the Apteryx acquisition LED has taken significant and progressive steps towards establishing itself as a leader in the development, sales and support of dental imaging devices and related software including its XVWeb® software as a service (SaaS) product.

Description of the Business

LED has grown from a pre-commercial research and product development company to a niche software and technology work flow solutions provider for dentists and oral health care specialists. The Company's product portfolio is centered on a family of patented, open architected software applications which includes XVWeb® SaaS imaging software, the Tuxedo® intraoral digital radiographic sensor, the VELscope® oral assessment device and additional distributed imaging devices including the RAYSCAN line of extraoral imaging systems. The customer base of the Company's initial VELscope® product, along with customers acquired from the February 2017 Apteryx acquisition provides a predictable pipeline and growth platform for lead generation for its imaging device and software business. LED's sales and marketing activities are directed primarily within the North American market and are focused towards corporately owned group practices known as Dental Support Organizations (DSOs), government dental clinics and individual dental practices. LED markets its products and services both directly and through select dental distributor / reseller channels to its target market of end user dental professionals. Marketing activities include direct mail/e-mail campaigns, advertising in industry journals and trade magazines, the publication of white papers, postings on social media and multiple unrelated offsite activities at locations including the company's web sites, personal onsite office visits and inbound and outbound telephone calls. In limited cases, direct marketing activities are oriented towards convincing dental practitioners to attend an educational seminar, webinar or trade show event in which LED is a sponsor or participant.

LED believes there is potential for continued expansion into international markets with its VELscope® device and the recent addition of the Apteryx software portfolio, which can both be localized to different languages. LED also has had recent success in establishing indirect and direct partnerships with large dental distributors and other organizations and networks that provide goodwill marketing for the Company and its products at offsite locations. This is a cost-effective strategy that the company will look to continue in the future.

In February 2017, the Company acquired Apteryx Inc. providing the Company with a growing stream of recurring revenue, a significant new base of customers, an expanded and strengthened IP portfolio, research and development software capabilities and a suite of patented digital imaging software. XVWeb®, XrayVision®, XVlite®, and DataGrabber represent Enterprise, Client Server and Software as a Service (SaaS) versions of the Apteryx Imaging portfolio. Once installed at a customer's site, unlike most competitors, Apteryx software allows the practice to interface with and deploy image acquisition devices from a wide range of hardware manufacturers. Through its patented data grabber and name grabber software utilities, Apteryx software also provides integration to most dental practice management software solutions. Apteryx's "open architecture" approach is unique in the dental industry where most competitive systems are "closed" proprietary systems. Apteryx competitive advantage of open compatibility with competitive imaging devices and integration with existing dental practice software allows a practice to continue to use their existing inventory of image acquisition devices while enabling the addition of LED imaging device solutions which are optimized for Apteryx software. This allows LED to successfully compete for the imaging device sales once Apteryx is installed at a customer's site. The ability to integrate with a wide range of devices and practice management software systems creates natural pull through on sales capabilities.

XVWeb® is a cloud based dental imaging software as a service (SaaS) solution that allows an individual practice or organization to capture and view their patient images securely and remotely from most web-enabled devices. Designed to work with existing imaging applications via secure TLS DICOM, XVWeb® allows the customer to store and retrieve images and image data from a webpage or any DICOM-compatible imaging program over a secure connection. XVWeb® allows the entire imaging database to be securely accessible via any web-connected device including smart phone or tablet. XVWeb® allows our customers to scale down the size and expense of onsite servers while reducing hardware and IT maintenance costs by utilizing XVWeb® and cloud resources.

In addition, most 3rd party practice management systems can be bridged to XVWeb®, and many, communicate directly and seamlessly with XVWeb® as an embedded service for clinical image management, processing and analysis. Apteryx software products facilitate our customers and prospects transition to a complete digital imaging workflow via the provision of image capture, analysis, storage, data conversion and sharing functionalities.

The acquisition of Apteryx continues to strengthen the Company by providing a growing stream of recurring revenue from SaaS and support and maintenance agreements and additional synergies to its core business which we expect will result in a financially stronger and more diversified Company with less reliance on imaging devices sales. Currently Apteryx revenues are a mix from the sale of perpetual software licenses, and recurring revenues from XVWeb® subscription software and the sale of support and maintenance agreements to its software customers. XVWeb® software platform add on subscription modules including our recently released XVWeb® 3D which supports 3D Cone Beam Computed Tomography (CBCT) and Stereolithography (STL) data sets. XVWeb® 3D will be offered to all current XVWeb® customers.

The core of the digital imaging device line is the proprietary TUXEDO intraoral digital sensor used for acquiring low dose intra-oral radiographs. The Tuxedo sensor is optimized for use with Apteryx x\software as is the RAYSCAN α digital extra oral imaging device, which comes in panoramic, cephalometric and Cone Beam Computed Technology (CBCT) varieties.

The VELscope® was initially launched in 2006 with the VELscope® Vantage, and, in 2011, the VELscope® Vx. The VELscope® Vx is portable, rechargeable, and significantly more affordable than previous models. Its increased functionality and lower production costs improve LED's prospects as it expands into more countries. The VELscope® Vx hand piece emits a safe blue light into the oral cavity, which excites the tissue from the surface of the epithelium through to the basement membrane (where premalignant changes typically start) and into the stroma beneath, causing it to fluoresce. The clinician is then able to immediately view the fluorescence response to help detect abnormal tissue. The VELscope® has peer-reviewed clinical studies that support its use in helping discover occult oral disease. The services of LED and its partners are directed toward developing a professional outreach program with key university–based oral pathology, oral surgery, and oral medicine leaders worldwide to assist healthcare providers as the need arises. LED is positioned to facilitate the dissemination of new findings that address early detection based on fluorescence and other technologies. Currently over 50% of US dental colleges own at least one VELscope®. LED has sold over 15,000 VELscope® devices since initial launch and supplies its VELscope® customers with disposable VELcaps and VELcare® customer support programs.

Products and Intellectual Property

LED's focus is on accelerating growth through its proprietary and patented products and technologies and aggregating a comprehensive imaging product portfolio in which intellectual property and competitive barrier to entry are a central focus. LED has sought patent protection for its projects by filing one or more patent applications for each aspect of a device, system or method, that LED believes is both patentable and that justifies the costs of patent protection. LED intends to protect future developments in the same manner. LED maintains certain of its intellectual property as trade secrets. LED also has pursued and intends to pursue trademark, copyright and other intellectual property protection as it believes is warranted. Currently LED has over 30 US and foreign patents.

FORWARD-LOOKING COMPANY OBJECTIVES

The Company's objectives for 2019 are to grow EBITDA[1], net income and free cash flow and strengthen the Company's financial position by:

- Continue to invest in growing recurring and repeatable revenue streams from Apteryx software subscription and maintenance and support, VELscope® consumable products and VELcare® services via traditional sales/marketing activities and strategic partnering opportunities
- XVWeb® SaaS customer acquisition campaign via traditional sales/marketing activities and strategic partnering opportunities for our software and imaging device offerings
- Expand XVWeb® reseller partner program focused on partners that sell dental practice management solutions
- Launch of additional XVWeb® modules
- Continued growth of customer base and lead pipeline in the Dental Support Organization (DSO) space and in the government space through General Services Agency contract award to more efficiently sell LED/Apteryx products and services to federal government agencies
- Reduced focus on sale and support of 3rd party distributed imaging device products with lower gross margins[2].
- Reducing debenture debt while continuing to execute on operating expense and operational optimizations made available by the evolving business

SIGNIFICANT EVENTS

- On January 18, 2019 the Company appointed Alex Ryzhikov to its board of directors. Mr. Ryzhikov, who holds a Chartered Financial Analyst designation, currently serves as Partner at Ewing Morris & Co., an independent Canadian boutique investment firm. Following the recent convertible preferred share placement, Ewing Morris & Co. Investment Partners Ltd. has become a significant investor in LED Medical.

Financial Highlights

- Revenue for the three months ended March 31, 2019 was $3,814,466, an increase of 14% from the three months ended March 31, 2018. The increase over the prior year period is primarily due to growth in the Company's recurring and repeatable revenue stream.

- Gross Margin[2] for the three months ended March 31, 2019 was $2,582,140 or 68%, compared to the three months ended March 31, 2018 of $2,154,347 or 65%. The increase in gross margin[2] percentage is due to a favorable change in product mix with a growth in higher margin software, warranty and support products, and reduced reliance on lower margin distributed third-party products compared to the previous year.

- Operating Expenses (excluding stock-based compensation and depreciation and amortization) decreased 5% from the three months ended March 31, 2018 due primarily to ongoing operating expense reductions, particularly administrative expenses.

[1] *EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization is a non-IFRS measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. EBITDA referenced here relates to net revenue less cost of goods sold, sales and marketing, research and development and administration expenses but excludes interest, income taxes, depreciation, amortization, finder's warrants issuance costs, stock-based compensation, deferred share unit compensation, mark to market adjustments on Canadian dollar denominated warrants, changes in fair value of derivative liabilities, foreign exchange gain or loss and other income. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the cash operating income (loss) of the business.*

[2] *Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenue less cost of sales. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the operating performance of the Company.*

- Net loss for the three months ended March 31, 2019 was $613,994 compared to a net income of $75,366 for the year ended March 31, 2018. Net loss was impacted by non-operating expenses including changes in the fair value of derivative liability, foreign exchange and interest expense.

- Cash flow provided by (used in) operations was $521,806 for the three months ended March 31, 2019 compared to ($581,622) for the three months ended March 31, 2018. The net cash used in financing activities was $842,937 for the three months ended March 31, 2019 relating to payments for the maturing Debentures.

- The Company had cash of $2,540,051 and Net Working Capital of $1,489,951 as at March 31, 2019. The Company had cash of $1,433,006 and Net Working Capital of ($2,790,566) as of March 31, 2018. Net Working Capital is defined as total current assets less total current liabilities.

SELECTED QUARTERLY INFORMATION

The information in the tables below has been derived from the Company's annual audited consolidated financial statements. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

(in US$ '000's)	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Cash	$2,540	$2,828	$3,413	$1,174	$ 1,433	$ 2,425	$ 1,120	$1,509
Working Capital	1,490	77	2,576	(2,566)	(2,791)	(1,221)	(1,522)	(893)
Total Assets	14,901	15,444	15,815	13,655	14,332	14,857	14,093	14,378
Long-term financial liabilities	10,896	11,356	8,077	3,168	3,660	5,602	4,885	4,191
Shareholders' equity	4,005	4,087	3,483	3,473	2,982	2,818	3,924	5,268

Historically, being in the dental supply industry and due to the timing of trade shows and client spending patterns, the Company's business has been seasonal in nature, with the fourth quarter typically representing the largest portion of annual sales and annual net earnings. Management expects such seasonality to be less of a factor going forward, due to adding the Apteryx software product line, focusing on a recurring revenue model, as well as selling to the DSO market and government agencies.

Consolidated Statement of Operations:

(in US$ '000's, except earnings per share)	March 31, 2019	December 31, 2018	September 30, 2018	June 30 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Revenues	$3,814	$3,812	$3,401	$3,671	$ 3,332	$ 3,694	$ 3,192	$3,704
Cost of goods sold	1,232	1,730	1,081	1,507	1,178	1,725	1,115	1,610
Gross margin[3]	2,582	2,082	2,320	2,164	2,154	1,968	2,077	2,094
Expenses:								
Sales and marketing	1,283	1,185	1,148	1,293	1,309	1,574	1,194	1,104
Research and development	316	292	300	270	300	332	297	249
Administration	431	1,019	486	501	518	868	760	757
Operating Income (loss)	552	(414)	386	100	27	(806)	(174)	16
Other expenses (income)	1,166	(952)	562	(278)	(48)	59	(1,274)	(921)
Income tax expense	-	-	-	-	-	-	-	-
Net profit (loss)	(614)	538	(176)	378	75	(865)	(1,448)	905
Net income (loss) per share (basic)	(0.02)	0.01	(0.00)	0.01	0.00	(0.00)	(0.00)	0.00

See Financial Results section below for further discussion on the selected quarterly income statement information.

[3] *Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenue less cost of sales. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2019

The following analysis of the results of operations for the three months ended March 31, 2019 includes comparisons to the three months ended December 31, 2018 and March 31, 2018.

Revenue

Revenue is derived from the sale of the Company's diverse product line of digital imaging software, software as a service subscriptions (SaaS), maintenance and support services, and imaging hardware devices which includes the VELscope® product and related consumable products, Tuxedo intraoral sensors and distributed extraoral imaging devices. Revenue is expressed net of sales and early payment discounts.

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Total revenue	**$ 3,814,466**	$ 3,811,629	$ 3,331,847

Revenue increased 14% when compared to the three months ended March 31, 2018 and increased by 0.7% from the three months ended December 31, 2018. The increase over the prior comparable periods is primarily due to growth in the recurring revenue streams.

During the three months ended March 31, 2019, the Company had no customers that represent 10% or more of total revenue. During the three months ended December 31, 2018 and the three months ended March 31, 2018, revenue from customers which amounted to 10% or more of the Company's revenue was also nil.

The Company continues to generate the majority of its revenue from the North American market but continues to explore expansion into other geographical regions.

Gross Margin[4]

The Company experienced the following gross margin[4] for the periods outlined:

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Revenue	**$ 3,814,466**	$ 3,811,629	$ 3,331,847
Cost of sales	**1,232,326**	1,730,306	1,177,500
Gross margin[4]	**$ 2,582,140**	$ 2,081,323	$ 2,154,347
Percentage of revenue	**68%**	55%	65%

Gross margin[4] for the three months ended March 31, 2019 increased to 68% compared to 65% for the three months ended March 31, 2018. This increase is primarily due to a favorable product mix with the focus on sales of the Company's higher margin Apteryx software and support services, a growth in recurring revenue and reduced sales of distribution low-margin 3rd party products.

[4] *Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenue less cost of sales. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

Expenses

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Sales and marketing	**$ 1,282,802**	$ 1,184,836	$ 1,309,388
Research and development	**315,557**	292,142	300,825
Administration	**431,067**	1,018,943	517,838
Other operating expenses	**303,418**	286,087	313,937
Total expenses	**$ 2,332,844**	$ 2,782,008	$ 2,441,988
As a percentage of revenue	**61%**	73%	73%

Expenses for the three months ended March 31, 2019 decreased by approximately 16% compared to the three months ended December 31, 2018 due primarily to ongoing operational optimization strategies initiated in 2018, largely impacting administrative expenses.

Sales and Marketing

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Sales and Marketing Expenses	**$ 1,282,802**	$ 1,184,836	$ 1,309,388
As a percentage of revenue	**34%**	31%	39%

Sales and marketing expenses consists of salaries and related personnel costs, sales commissions, consulting fees, advertising, trade show costs & customer support activities. The decrease in sales and marketing expenses for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was due to a reduction in sales staff headcount and reduced direct marketing activity.

Research and Development

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Research and Development Expenses	**$ 315,557**	$ 292,142	$ 300,825
As a percentage of revenue	**8%**	8%	9%

Research and development expenses relates primarily to salaries and related benefit costs, costs related to and the general development of Apteryx software technology and the Company's hardware products, along with costs involved with obtaining and maintaining regulatory approvals. The Company is currently focused on enhancing and developing new Apteryx software products and additional XVWeb® modules. Research and development costs for the three months ended March 31, 2019 were consistent with prior periods.

Administration

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Administration Expenses	**$431,067**	$ 1,018,943	$ 517,838
As a percentage of revenue	**11%**	27%	16%

Administration expenses include executive and administrative staff, facilities, investor relations, insurance, accounting and legal fees as well as various general administrative costs. Administration expenses were lower for the three months ended March 31, 2019 compared to the three months ended December 31, 2018 due to a one-time expense of $172,450 relating to the exit of a long-term property lease as part of the Apteryx integration and $355,693 of transaction costs recognized relating to the preferred share private placement. Administration expenses were lower for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to the Company's initiatives to optimize operational efficiencies.

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

Other Operating Expenses

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Stock-based compensation	**$ 68,844**	$ 65,899	$ 88,464
Depreciation & amortization	**234,574**	220,188	225,473
Total other operating expenses	**$ 303,418**	$ 286,087	$ 313,937
Percentage of revenue	**8%**	8%	10%

Stock-based compensation was lower in the period ended March 31, 2019 compared to the periods ending March 31, 2018 as there were no additional stock option grants during the period. Depreciation and amortization expense for the three months ended March 31, 2019 increased compared to the three months ended December 31, 2018 due to the amortization of the Akron office lease as per IFRS 16.

EBITDA[5]

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Net income (loss)	**$ (613,994)**	$ 538,132	$ 75,366
Add back: Other expenses (earnings)	**1,166,708**	(952,730)	(49,070)
EBITDA[5]	**$ 552,714**	$ (414,598)	$ 26,296

EBITDA[5] was $552,714 for the three months ended March 31, 2019 compared to $(414,598) for the three months ended December 31, 2018 and $26,296 for the three months ended March 31, 2018. The positive EBITDA result for the three months ended March 31, 2019 reflects the growth in gross margin[6] and reduction in operating expenses. In the three months ended December 31, 2018, the Company elected to pay a one-off fee of $172k to terminate a long-term lease obligation and this payment was reflected in operating expenses along with $356k of transaction costs related to the preferred share financing, both of which reduced EBITDA[5] for the quarter to a negative position.

[5] *EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization is a non-IFRS measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. EBITDA referenced here relates to net revenue less cost of goods sold, sales and marketing, research and development and administration expenses but excludes interest, income taxes, depreciation, amortization, finder's warrants issuance costs, stock-based compensation, deferred share unit compensation, mark to market adjustments on Canadian dollar denominated warrants, changes in fair value of derivative liabilities, foreign exchange gain or loss and other income. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the cash operating income (loss) of the business.*

[6] *Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenue less cost of sales. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

Other Expenses (Earnings)

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Change in fair value of Canadian dollar denominated warrants	**$ (155)**	$ (167,542)	$ (472,648)
Change in fair value of derivative liabilities	**433,955**	(1,248,281)	-
Foreign exchange (gain) loss	**137,773**	(225,590)	(118,868)
Interest expense	**294,529**	341,923	228,509
Other non-operating expenses	**(2,812)**	60,673	-
Total other operating expenses (earnings)	**$ 863,290**	$ (1,238,817)	$ (363,007)

For the three months March 31, 2019 other earnings increased in comparison to the three months ended December 31, 2018 due to the change in the fair value of the Canadian dollar denominated warrants, a foreign exchange loss resulting from a devaluation of the Canadian currency and changes in the fair value of the derivative liability.

Net Income (Loss)

	Three months ended:		
	March 31, 2019	December 31, 2018	March 31, 2018
Operating income (loss)	**$ 294,296**	$ (700,685)	$ (287,641)
Total other Expenses (earnings)	**(863,290)**	(1,238,817)	(363,007)
Income tax expense	**-**	-	-
Net income/ (loss) for the period	**$ (613,994)**	$ 538,132	$ 75,366
Earnings/ (Loss) per share	**$ (0.02)**	$ 0.01	$ 0.00

Net loss for the three months ended March 31, 2019 was $(613,994) or $0.02 earnings per share compared to net income of $538,132 for the three months ended December 31, 2018 or $0.01 earnings per share and $75,366 or $0.00 earnings per share for the three months ended March 31, 2018. Non-operating expenses including fair value adjustment to derivative liability, foreign exchange losses and interest impacting the net loss figure for the period.

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

LIQUIDITY AND CAPITAL RESOURCES

The Company's near-term cash requirements relate primarily to operations, working capital and general corporate purposes. Based on the current business plan, the Company believes cash and cash equivalents, along with its short-term investments will be sufficient enough to fund the Company's operating requirement for the next three months. The Company updates its forecasts on a regular basis and will consider additional financing sources as appropriate.

As at March 31, 2019, the Company had cash of $2,540,051 and Net Working Capital of $1,489,951 as compared to cash of $1,433,006 and Net Working Capital deficit of $2,800,566 as at March 31, 2018.

	Three months ended:	
Cash provided by (used in):	**March 31, 2019**	March 31, 2018
Operating activities	**$ 521,806**	$ (581,622)
Investing activities	**-**	(16,988)
Financing activities	**(842,937)**	(263,889)
Foreign exchange effect on cash	**33,300**	(129,963)
Net increase (decrease) in cash	**$ (287,831)**	$ (992,462)

Cash used in operating activities for the three months ended March 31, 2019 was attributable to the Company's financial performance along with changes in working capital items.

For the three months ended March 31, 2019 the Company incurred no investing activities.

The financing activities during the three months ended March 31, 2019 relate the payment of the February 2019 maturing Debenture units.

STAFFING LEVELS

The following table summarizes the Company's headcount, consisting of employees and contractors, by functional group:

	As at March 31, 2019	**As at December 31, 2018**	**As at March 31, 2018**
Sales and marketing	13	13	14
Support	18	18	16
Research and development	10	10	11
Administration	5	5	6
Total	**46**	**46**	**47**

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

COMMITMENTS

The Company continues to have no bank debt, off-balance sheet financing arrangements or capital leases. The Company has operating leases with respect to its operating premises in Vancouver, B.C.; Atlanta, Georgia; and Akron, Ohio. The aggregate of minimum lease payments for subsequent years as at March 31, 2019 is $259,601.

The Company has CDN$2,500,000 principal amount of second secured debentures that mature on October 30, 2019.

The Company has 20,322,624 convertible preferred shares outstanding. The preferred shares were issued at a price of CDN$0.45 per share. Each share is entitled to cumulative annual dividends of CDN$0.0225 per share (5%), payable in arrears quarterly in cash until maturity. The dividend rate may be increased to an annual dividend of CDN$0.054 per share (12%) under certain circumstances. The preferred shares mature on September 4, 2023.

INTANGIBLE ASSET IMPAIRMENT

The Company has no impaired intangible assets.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

During the three months ended March 31, 2019 and 2018 respectively, the Company paid or accrued the following compensation expenses to key personnel of the Company:

	Three months ended:	
Cash used in:	**March 31, 2019**	March 31, 2018
Short-term compensation	**$ 132,177**	$ 187,939
Share-based payments	**$ 55,806**	$ 58,631
Total	**$ 187,983**	$ 246,570

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These consolidated financial statements, which have been approved by the Board of Directors on April 28, 2019, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These consolidated financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company's annual financial statements as at and for the year ended December 31, 2018 (except for the adoption of new accounting standards effective January 1, 2018 – see below). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2018 (which were prepared in accordance with International Financial Reporting Standards, or "IFRS").

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management makes assumptions and estimates of the impacts from uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates, as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of the Company's condensed interim consolidated financial statements for the three months ended March 31, 2019 are consistent with those applied and disclosed in note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2018, with the exception of the new standards adopted below.

New Standards and Interpretations Adopted

The Company applied, for the first time, IFRS 16 – Leases, which requires a restatement of previous financial statements. The nature and effect of those changes are disclosed below.

IFRS 16 - Leases

The standard supersedes the current IAS 17, Leases (IAS 17) standard. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

The Company applied IFRS 16 with a date of initial application of January 1, 2019. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

The Company applied IFRS 16 using the limited retrospective approach. Consequently, it has not restated the comparative information. As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on the Consolidated Statements of Financial Position, as well as a decrease to operating costs (for the removal of rent expense for leases), an increase to depreciation (due to depreciation of the right-of-use asset), and an increase to finance costs (due to accretion of the lease liability). The details of the changes in accounting policies are disclosed below.

<u>Definition of a Lease</u>

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease. Under IFRIC 4, the Company assessed a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
    - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
    - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
    - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

As a Lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases.

The Company decided to apply recognition exemptions to short-term leases of office space in Atlanta, Georgia, US and Vancouver, BC, Canada.

There is no material impact to basic and fully diluted earnings per share and the Company has not restated the prior comparative balances due to application of the limited retrospective basis of IFRS 16.

Prior to adopting IFRS 16, the total minimum operating lease commitments as at December 31, 2018 were $263,461. The weighted average discount rate applied to the total lease liabilities recognized on transition was 5.00%, which is equivalent to the annual dividend obligations for the Company's preferred shares (see Note 14 in the Company's March 31, 2019 Interim Condensed Financial Statements) The difference between the total of the minimum lease payments set out in Note 11 (a) to the Company's 2018 Annual Financial Statements and the total lease liabilities recognized on transition was a result of:

- the effect of discounting on the minimum lease payments; and
- certain costs to which we are contractually committed under lease contracts but which do not qualify to be accounted for as a lease liability

Right-of-use assets and lease liabilities

The Company has recorded a right-of-use asset and a lease liability for all existing leases at the lease commencement date, which is January 1, 2019 for the purposes of the Company's adoption. The lease liability has been initially measured at the present value of all lease payments that remain to be paid at the commencement date. Lease payments included in the measurement of the lease liability only include fixed payments.

After transition, the right-of-use asset will initially be measured at cost, consisting of:

- the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- any lease incentives received.

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

The right-of-use asset will typically be depreciated on a straight-line basis over the lease term, unless the Company expects to obtain ownership of the leased asset at the end of the lease. The lease term will consist of:

- the non-cancellable period of the lease;
- periods covered by options to extend the lease, where the Company is reasonably certain to exercise the option; and
- periods covered by options to terminate the lease, where the Company is reasonably certain not to exercise the option.

RIGHT-OF-USE ASSET

The following table presents details of movement in the carrying value of the right-of-use asset:

	March 31, 2019	December 31, 2018
Beginning Balance	**$ 226,018**	$ 368,176
Purchases	-	-
Amortization	(18,835)	(142,158)
Ending Balance	**$ 207,183**	$ 226,018

LEASES

The Company has operating leases with respect to its operating premises in Akron, Ohio. The aggregate of minimum lease payments as at December 31, 2018 are as follows: Below is a summary of the activity related to the Company's lease liabilities:

	March 31, 2019	**December 31, 2018**
Maturity Analysis – contractual undiscounted cash flows		
Less than one year	$ 84,601	$ 93,061
One to three years	175,000	170,400
Total undiscounted lease liabilities	**$ 259,601**	**$ 263,461**
Lease liabilities included in Consolidated Statements of Financial Position	**$ 196,093**	**$ 215,291**
Current	74,438	75,373
Non-current	121,655	139,918

Amounts Recognized in Statements of Operations	**Three months ended March 31, 2019**	**Three months ended March 31, 2018**
Finance charge on lease payments	$ 9,281	$ 11,077
Variable lease payments expensed	40,487	41,399
Expenses relating to short-term leases	33,633	14,784
Total amounts recognized in Statements of Operations	**$ 83,401**	**$ 67,260**

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

The following is a reconciliation of total operating lease commitments at December 31, 2018 (as disclosed in the Company's annual financial statements as at and for the year ended December 31, 2018) to the lease liabilities recognized at January 1, 2019:

Total operating lease commitments disclosed at December 31, 2018	**$ 263,461**
Recognition exemptions for leases with remaining lease term of less than 12 months	(7,861)
Discounted using incremental borrowing rate	(40,309)
Total lease liabilities recognized under IFRS 16 at March 31, 2019	**$ 215,291**

The following is a reconciliation of total operating lease commitments at March 31, 2019 to the lease liabilities recognized at March 31, 2019:

Total operating lease commitments disclosed at March 31, 2019	**$ 259,601**
Recognition exemptions for leases with remaining lease term of less than 12 months	(25,301)
Discounted using incremental borrowing rate	(38,207)
Total lease liabilities recognized under IFRS 16 at March 31, 2019	**$ 196,093**

Total lease payments made during the three months ended March 31, 2019 was $44,762 (three months ended March 31, 2018 - $76,688).

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The following financial instruments are all measured at amortized cost. The fair value of each (with the exception of the investment in customer) approximates its carrying value due to their short-term nature. The fair value of the investment in customer is determined using implied valuations from financing rounds. Therefore, it is treated as a Level 1 financial asset, as with the fair value equating its carry value.

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 carrying values and fair values of financial assets (liabilities) as at March 31, 2019 and December 31, 2018 are summarized as follows:

<u>Classification of financial instruments</u>

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

	March 31, 2019	December 31, 2018
Amortized cost:		
Cash	$ 2,540,051	$ 2,827,882
Trade and receivables	2,357,449	2,531,208
	$ 4,897,500	$ 5,359,090

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

	March 31, 2019	December 31, 2018
FVPTL:		
Warrants	$ -	$ 155
Derivative preferred share liability	3,399,943	2,901,787
	$ 3,399,943	$ 2,901,942

	March 31, 2019	December 31, 2018
Other financial liabilities:		
Trades payable and accrued liabilities	$ 2,060,215	$ 1,576,953
Debentures	1,790,860	2,558,248
Preferred Shares	2,671,244	2,504,044
Lease Liability (current)	74,438	-
Lease Liability	121,655	-
Deferred consideration on acquisition	-	450,000
	$ 6,718,412	$ 7,089,245

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

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 and accrued interest payable 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.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as at March 31, 2019 and December 31, 2018. As required by IFRS 13, assets and liabilities are classified in their entirety on the lowest level of input that is significant to the fair value measurement.

	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value at March 31, 2019**
Derivative liability	-	-	$ 3,399,943	$3,399,943
Total	-	**-**	**$ 3,399,943**	**$ 3,399,943**

	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value at December 31, 2018**
Warrants	-	$ 155	-	$ 155
Derivative liability	-	-	$2,901,787	$2,901,787
Total	**-**	**$155**	**$2,901,787**	**$ 2,901,942**

The Company measures warrants using the Black-Scholes method, which utilizes the risk-free rate and the stock price volatility to estimate the fair value of warrants. The effects of non-observable inputs are not significant for CDN denominated warrants and as such this financial instrument is categorized as Level 2 in the fair value hierarchy. There were no transfers between Level 1, 2 and 3 in 2018 or 2019.

The fair value of the derivative liability was calculated using a Binomial Tree model ("Binomial Model"). This derivative has been classified as Level 3 in the fair value hierarchy. Key inputs and assumptions used in the model at initial recognition (September 4, 2018) and as at March 31, 2019 are summarized below:

Valuation Date	**March 31, 2019**	September 4, 2018
Principal amount	CDN$ 9,145,181	CDN$ 9,145,181
Conversion price	CDN$ 0.45	CDN$ 0.45
Forced conversion price	CDN$1.50	CDN$1.50
Share price at valuation date	CDN$ 0.40	CDN$ 0.47
Volatility	89.00%	89.00%
Risk-free rate	1.52%	2.16%
Maturity	4.43 years	5 years

(Unaudited and Expressed in U.S. dollars, unless otherwise noted)

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, and interest rate risk are provided below.

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 March 31, 2019, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

As at March 31, 2019 and December 31, 2018, the Company's exposure to credit risk for these financial instruments was as follows:

Credit risk	**March 31, 2019**	December 31, 2018
Cash	**$ 2,540,051**	$ 2,827,882
Receivables	**2,357,449**	2,531,208
Total	**$ 4,897,500**	$ 5,359,090

Trade accounts receivable were aged as follows as at March 31, 2019 and December 31, 2018.

Accounts receivable aging	**March 31, 2019**	December 31, 2018
Current	**$ 1,527,807**	$ 1,583,848
31 - 60 days	**241,115**	313,987
Over 60 days	**560,122**	545,563
Total accounts receivable	**$ 2,329,045**	$ 2,443,398
Goods and services tax receivable	**28,404**	87,810
Total Accounts Receivable plus taxes receivable	**$ 2,357,449**	$ 2,531,208

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 were aged as follows as at March 31, 2019 and December 31, 2018, respectively and does not include accrued liabilities, warranty provision and state and provincial sales tax payable, of which are all current. All trade payables are current liabilities:

Accounts payable aging	**March 31, 2019**	December 31, 2018
Current	**$ 940,600**	$ 946,334
31 - 60 days	**7,297**	6,389
Over 60 days	**47,400**	51,411
Total	**$ 995,296**	$ 1,004,134

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at March 31, 2019:

	Within One Year	**Between One and Five years**
Trade payables and accrued liabilities	$ 1,583,924	$ -
Deferred revenue	777,851	-
Debenture	1,790,860	-
Lease Liability	74,438	121,655
Preferred Shares	-	2,671,244
	$ 4,227,073	**$2,792,899**

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 secure additional financing 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 March 31, 2019, the Company had not entered into any derivative contracts to manage this risk.

Foreign Currency risk

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs primarily attributable to its services business and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company has not hedged its exposure to currency fluctuations.

With all other variables remaining constant, assuming a 10% weakening of the Canadian dollar versus the U.S. dollar would have an impact on the amounts shown in the table below. An assumed 10% strengthening of the Canadian dollar versus the U.S. dollar would have had an equal but opposite effect on the amounts shown below:

	March 31, 2019	December 31, 2018
	CDN	CDN
Cash	$ 1,075,850	$ 2,410,898
Account Receivable	32,574	44,054
Trade payable and accrued liabilities	(21,789)	(12,638)
Net statement of financial position exposure	**$ 1,086,635**	**$ 2,442,314**

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, without par value and an unlimited number of preferred shares without par value. As of the date of this MD&A, the Company has 38,785,096 common shares outstanding and 20,322,624 preferred shares outstanding.

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect 10% of the issued and outstanding common shares of the Company from time to time. As of March 31, 2019, the Company is entitled to grant incentive stock options for 3,405,939 and has issued 12,000 deferred share units under the Company's Deferred Share Unit Plan. The Company also had 693,379 warrants outstanding.

RISKS AND UNCERTAINTIES

An investment in the securities of the Company may be regarded as speculative due to the Company's stage of development. Risk factors relating to the Company could materially affect the Company's future results and could cause them to differ materially from those described in forward-looking statements relating to the Company. Prospective investors should carefully consider these risks.

For an extensive discussion on risks and uncertainties refer to the "Risks and Uncertainties" section in the December 31, 2018 Annual Information Form (AIF) and the Company's Management Discussion and Analysis (MD & A) for the period ended December 31, 2018 filed on SEDAR. Although the risk factors disclosed in the AIF and MD & A are the major risk factors identified by management, they do not comprise a definitive list of all risk factors related to the Company. In addition, other risks and uncertainties not presently known by management could impair the Company and its business, operations, results of operations, financial condition and future prospects in the future.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company. The Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements in accordance with IFRS.

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of the Company's internal controls over financial reporting in accordance with Internal Control - Integrated Framework 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation identified no instances in which internal controls did not operate in an effective manner. Nonetheless, the Company has further strengthened its internal control processes to mitigate future potential material financial statement misstatements and other internal control violations during the three months ended March 31, 2019.

Because of the inherent limitations in a control system, any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the financial statements. As the Company has a limited number of personnel, management has concluded that a weakness exists in the design of internal controls over financial reporting caused by a lack of adequate segregation of duties. This weakness has the potential to result in material misstatements in the Company's financial statements and should also be considered a weakness in its disclosure controls and procedures. Management has concluded that taking into account the present stage of the Company's development and the best interests of its shareholders; the Company does not have sufficient size and scale to warrant the hiring of additional personnel to correct this weakness at this time. To help mitigate the impact of this weakness and to ensure quality financial reporting, supervisory controls are exercised by management and the Audit Committee is vigilant in its' oversight.

The Chief Executive Officer and Chief Financial Officer of the Company conducted an evaluation of the disclosure controls and procedures as required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" issued by the Canadian Securities Administrators. They concluded that as at March 31, 2019, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis.