



**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**  
*(UNAUDITED, 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 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 Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

Dr. David Gane  
Chief Executive Officer  
August 22, 2019

# LED MEDICAL DIAGNOSTICS INC.

Interim Condensed Consolidated Statements of Financial Position  
(Unaudited and Expressed in U.S. Dollars)

	Notes	as at <b>June 30, 2019</b>	December 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		<b>\$ 2,777,891</b>	\$ 2,827,882
Trade and other receivables	4	<b>2,875,625</b>	2,531,208
Inventory	5	<b>1,063,786</b>	891,331
Prepaid expenses and deposits		<b>547,048</b>	476,633
		<b>7,264,350</b>	6,727,054
<b>Non-current assets</b>			
Property and equipment	6	<b>56,867</b>	63,395
Intangible assets	7	<b>6,367,637</b>	6,785,187
Goodwill	8	<b>1,868,130</b>	1,868,130
Right of use lease asset	3	<b>188,348</b>	-
<b>Total assets</b>		<b>\$ 15,745,332</b>	\$ 15,443,766
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade payables and accrued liabilities	9	<b>\$ 2,862,317</b>	\$ 2,042,424
Deferred revenue		<b>705,416</b>	899,701
Debentures	11	<b>1,860,159</b>	2,558,248
Lease liability	3	<b>73,515</b>	-
Deferred consideration on acquisition		-	450,000
			5,950,373
<b>Non-current liabilities</b>			
Preferred shares	12	<b>2,843,246</b>	2,504,044
Derivative preferred share liability	12	<b>3,506,439</b>	2,901,787
Lease liability	3	<b>103,619</b>	-
Warrants	14	-	155
<b>Total liabilities</b>		<b>11,954,711</b>	11,356,359
<b>Shareholders' equity</b>			
Share capital	15	<b>\$ 51,758,046</b>	\$ 50,944,234
Stock-based payment reserve	16	<b>3,238,327</b>	3,139,368
Warrants reserve	14	<b>130,475</b>	494,287
Accumulated other comprehensive income		<b>474,458</b>	474,458
Deficit		<b>(51,790,685)</b>	(50,964,940)
<b>Total shareholders' equity</b>		<b>3,790,621</b>	4,087,407
<b>Total liabilities and shareholders' equity</b>		<b>\$ 15,745,332</b>	\$ 15,443,766

*Nature of Operations and Going Concern (Note 1)*

*Commitments and Contingencies (Note 10)*

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

Approved on behalf of the Board of Directors:

" David Gane "  
Chief Executive Officer  
Dr. David Gane

" George Reznik "  
Director  
George Reznik

## LED MEDICAL DIAGNOSTICS INC.

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

(Unaudited and Expressed in U.S. Dollars)

For the three and six months ended June 30, 2019 and 2018

	Notes	Three months ended June 30, 2019	Three months ended June 30, 2018	Six Months ended June 30, 2019	Six months ended June 30, 2018
<b>Revenues</b>	18	<b>\$ 3,933,084</b>	\$ 3,671,432	<b>\$ 7,747,550</b>	\$ 7,003,279
<b>Cost of goods sold</b>		<b>1,256,700</b>	1,506,716	<b>2,489,026</b>	2,684,216
		<b>2,676,384</b>	2,164,716	<b>5,258,524</b>	4,319,063
<b>Expenses</b>					
Sales and marketing	22	<b>1,192,831</b>	1,292,868	<b>2,475,633</b>	2,602,256
Research and development	22	<b>406,590</b>	270,385,	<b>722,147</b>	571,210
Administration	22	<b>563,429</b>	501,030	<b>944,496</b>	1,018,869
Stock-based compensation	16	<b>30,114</b>	112,797	<b>98,958</b>	201,261
Depreciation and amortization	6/7	<b>234,801</b>	225,476	<b>469,375</b>	450,949
		<b>2,427,765</b>	2,402,556	<b>4,760,609</b>	4,844,545
<b>Operating income (loss)</b>		<b>248,619</b>	(237,840)	<b>497,915</b>	(525,482)
<b>Other expenses/(earnings)</b>					
Change in fair value of Canadian dollar denominated warrants	14	-	(748,176)	<b>(155)</b>	(1,220,824)
Change in fair value of derivative preferred share liability	12	<b>40,828</b>	-	<b>474,783</b>	-
Foreign exchange (gain) loss		<b>152,708</b>	(102,458)	<b>290,481</b>	(221,325)
Other non-operating expenses		-	-	<b>(2,812)</b>	-
Interest	11/12	<b>297,563</b>	234,758	<b>592,092</b>	463,267
		<b>491,099</b>	(615,876)	<b>1,354,389</b>	(978,882)
<b>Net income (loss) and comprehensive income (loss) before income taxes</b>		<b>(242,480)</b>	378,036	<b>(856,474)</b>	453,400
Income tax expense		-	-	-	-
<b>Net income (loss) and comprehensive income (loss) for the period</b>		<b>\$ (242,480)</b>	\$ 378,036	<b>\$ (856,474)</b>	\$ 453,400
<b>Income (Loss) per share – basic and diluted</b>	21	<b>(\$ 0.01)</b>	\$ 0.01	<b>(\$ 0.02)</b>	\$ 0.01
Weighted average number of shares outstanding – basic and diluted		<b>38,588,680</b>	37,914,636	<b>38,588,680</b>	37,914,636

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

## LED MEDICAL DIAGNOSTICS INC.

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

(Unaudited and Expressed in U.S. Dollars)

	Number of Shares	Share Capital	Stock-based Payments Reserves	Warrants Reserve	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity (Deficiency)
<b>Balance, January 1, 2018</b>	<b>37,914,636</b>	<b>\$ 50,944,234</b>	<b>\$ 2,799,476</b>	<b>\$ 381,374</b>	<b>(\$ 51,781,389)</b>	<b>\$ 474,458</b>	<b>\$ 2,818,153</b>
Issuance of share on exercise of DSU	24,000	-	-	-	-	-	-
Stock based compensation	-	-	339,892	-	-	-	339,892
Finder warrants issued pursuant to preferred share financing	-	-	-	112,913	-	-	112,913
Net income and comprehensive income for the year	-	-	-	-	816,450	-	816,450
<b>Balance, December 31, 2018</b>	<b>37,938,636</b>	<b>\$ 50,944,234</b>	<b>\$ 3,139,368</b>	<b>\$ 494,287</b>	<b>(\$ 50,964,940)</b>	<b>\$ 474,458</b>	<b>\$ 4,087,407</b>
Adjustment from the adoption of IFRS 16	-	-	-	-	10,728	-	10,728
<b>Adjusted balance at January 1, 2019</b>	<b>37,938,636</b>	<b>\$ 50,944,234</b>	<b>\$ 3,139,368</b>	<b>\$ 494,287</b>	<b>(\$ 50,954,212)</b>	<b>\$ 474,458</b>	<b>\$ 4,098,135</b>
Shares issued as settlement on the purchase of Apteryx	846,460	450,000	-	-	-	-	450,000
Settlement of share capital on expiry of unexercised warrants	-	363,812	-	(363,812)	-	-	-
Stock based compensation	-	-	98,958	-	-	-	98,958
Net loss and comprehensive loss for the period	-	-	-	-	(856,474)	-	(856,474)
<b>Balance, June 30, 2019</b>	<b>38,785,096</b>	<b>\$ 51,758,046</b>	<b>\$ 3,238,327</b>	<b>\$ 130,475</b>	<b>(\$ 51,810,685)</b>	<b>\$ 474,458</b>	<b>\$ 3,790,621</b>

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

# LED MEDICAL DIAGNOSTICS INC.

Interim Condensed Consolidated Statements of Cash Flow

(Unaudited and Expressed in U.S. Dollars)

For the three and six months ended June 30, 2019 and 2018

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
<b>Cash flows from operating activities</b>				
Net income (loss) for the period	\$ (242,480)	\$ 378,036	\$ (856,474)	\$ 453,400
<b>Adjustments to net income (loss) for items not involving cash:</b>				
Depreciation and amortization	234,801	225,476	469,375	450,949
Change in fair value of Canadian dollar denominated warrants	-	(748,176)	(155)	(1,220,824)
Change in fair value of derivative liabilities	40,828	-	474,783	-
Lease liability	(18,959)	(4,634)	(38,156)	(9,908)
Stock-based compensation	30,114	112,797	98,958	201,261
Unrealized foreign exchange gain/loss	15,328	93,731	179,041	223,694
Interest accretion	297,563	129,904	592,09	225,714
Bad debt expense	-	-	-	-
	357,195	187,134	919,464	324,286
<b>Changes in working capital assets and liabilities:</b>				
Trade and other receivables	(518,176)	41,536	(344,417)	(289,360)
Inventory	(188,644)	209,823	(172,455)	(172,563)
Prepaid expenses and deposits	(126,376)	(58,530)	(70,415)	(20,941)
Trade payables and accrued liabilities	802,102	(314,266)	819,893	(134,889)
Deferred revenue	(72,435)	(164,659)	(194,285)	(317,591)
	(53,528)	(286,096)	38,322	(935,344)
Interest paid	(144,601)	(78,865)	(298,360)	(149,382)
<b>Cash flows used in operating activities</b>	<b>109,066</b>	<b>(178,827)</b>	<b>659,426</b>	<b>(760,440)</b>
<b>Cash flows from investing activities</b>				
Purchase of equipment	(7,628)	-	(7,628)	(16,998)
<b>Cash flows provided by (used in) investing activities</b>	<b>(7,628)</b>	<b>-</b>	<b>(7,628)</b>	<b>(16,998)</b>
<b>Cash flows from financing activities</b>				
Issuance of units, net of issuance costs	-	-	-	-
Payment of deferred consideration	-	(186,111)	-	(450,000)
Payment of Debentures	-	-	(842,937)	-
Proceeds from debenture issuance	-	200,000	-	200,000
<b>Cash flows provided by (used in) financing activities</b>	<b>-</b>	<b>13,889</b>	<b>(842,937)</b>	<b>(250,000)</b>
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>101,438</b>	<b>(164,938)</b>	<b>(191,139)</b>	<b>(1,027,438)</b>
Foreign exchange effect on cash and cash equivalents	136,402	(93,731)	141,148	(223,694)
Cash and cash equivalents, beginning of period	2,540,051	1,433,006	2,827,882	2,425,468
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,777,891</b>	<b>\$ 1,174,337</b>	<b>\$ 2,777,891</b>	<b>\$ 1,174,337</b>

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

# LED MEDICAL DIAGNOSTICS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
(Unaudited and Expressed in U.S. Dollars, unless otherwise noted)  
For the three and six months ended June 30, 2019 and 2018

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## 1. NATURE OF OPERATIONS AND GOING CONCERN

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 and principal address are located at 810 – 580 Hornby Street, British Columbia, Canada, V6C 3B6. The 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 (US) 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, which was incorporated under the laws of Ohio state.

The interim condensed consolidated financial statements of the Company, as at, and for the three and six months ended June 30, 2019 and June 30, 2018 comprise the Company and its subsidiaries (together referred to as the “Company” and individually as “Company entities”).

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 to help define appropriate margins for surgical excision. The Company also features its digital imaging product line that provides dentists and oral health specialists with advanced diagnostic imaging products and software. On February 10, 2017, the Company acquired 100% of the common shares of Apteryx, Inc. (“Apteryx”). Apteryx is a custom software development company located in Akron, Ohio specializing in medical and dental image processing, data encryption and security, database, data conversion and distributed systems.

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 Company received positive cash flow from operations of \$109,066 for the three months ended June 30, 2019. As at June 30, 2019, the Company had an accumulated deficit of \$51,790,685. Management assesses the Company’s ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. Material uncertainties have been identified which may cast significant doubt upon the Company’s ability to continue as a going concern. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.

In assessing whether the going concern assumption was appropriate, management considered all relevant information available about the future, which was at least, but not limited to, the 12-month period from the date of this report. The following is considered in evaluating the going concern of the entity pertaining to the financial statements as at June 30, 2019:

- The Company has US\$1.9 million of debentures outstanding at June 30, 2019 of which US\$1.9 million is payable over the next 12 months.
- The Company has a history of operating losses since inception and not achieving its revenue and cash flow objectives for its annual fiscal plans approved by the board of directors.
- The Company’s current forecasted future cash flows are adequate to meet its debenture and related interest payment and preferred share dividend obligations over the next 12 months. However, in event that the Company does not achieve its forecast, it may not be able to meet the US\$1.9 million debenture repayment and related interest payable in October 2019 as well as its other obligations.
- The Company has relied on equity and debt financings to fund its operating losses. Although the Company has a good track record for raising financing there is no guarantee it 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’s ability to continue as a going concern is dependent upon its ability to renegotiate debt repayment terms, raise adequate financing and achieve significant improvements in operating results in the future.

The assessment of the Company’s ability to execute its strategy and fund future working capital requirements involves significant judgement. Estimates and assumptions regarding future operating costs, revenue and profitability levels and general business and customer conditions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As at June 30, 2019 and as at the date of approval of these interim condensed 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.

# LED MEDICAL DIAGNOSTICS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
(Unaudited and Expressed in U.S. Dollars, unless otherwise noted)  
For the three and six months ended June 30, 2019 and 2018

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## 2. BASIS OF PRESENTATION

### Statement of Compliance

These interim condensed consolidated financial statements, which have been approved by the Board of Directors on August 22, 2019, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). These interim condensed 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, 2019 – 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").

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 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 amortization (due to amortization 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.

#### Definition of a Lease

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.



# LED MEDICAL DIAGNOSTICS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
(Unaudited and Expressed in U.S. Dollars, unless otherwise noted)  
For the three and six months ended June 30, 2019 and 2018

## 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 12). The difference between the total of the minimum lease payments set out in Note 10 (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.

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:

	<b>June 30, 2019</b>	December 31, 2018
<b>Beginning Balance</b>	<b>\$ 226,018</b>	\$ 368,176
Purchases	-	-
Amortization	(37,670)	(142,158)
<b>Ending Balance</b>	<b>\$ 188,348</b>	\$ 226,018

## LED MEDICAL DIAGNOSTICS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
(Unaudited and Expressed in U.S. Dollars, unless otherwise noted)  
For the three and six months ended June 30, 2019 and 2018

### LEASES

The Company has operating leases with respect to its operating premises in Akron, Ohio. Below is a summary of the activity related to the Company's lease liabilities:

	June 30, 2019	December 31, 2018
<b>Maturity Analysis – contractual undiscounted cash flows</b>		
Less than one year	\$ 67,262	\$ 93,061
One to three years	178,621	170,400
<b>Total undiscounted lease liabilities</b>	<b>\$ 245,883</b>	<b>\$ 263,461</b>
<b>Lease liabilities included in Consolidated Statements of Financial Position</b>	<b>\$ 177,134</b>	<b>\$ 215,291</b>
Current	73,515	75,373
Non-current	103,619	139,918

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:

<b>Total operating lease commitments disclosed at December 31, 2018</b>	<b>\$ 263,461</b>
Recognition exemptions for leases with remaining lease term of less than 12 months	(7,861)
Discounted using incremental borrowing rate	(40,309)
<b>Total lease liabilities recognized under IFRS 16 at June 30, 2019</b>	<b>\$ 215,291</b>

The following is a reconciliation of total operating lease commitments at June 30, 2019 to the lease liabilities recognized at June 30, 2019:

<b>Total operating lease commitments disclosed at June 30, 2019</b>	<b>\$ 245,883</b>
Recognition exemptions for leases with remaining lease term of less than 12 months	(32,883)
Discounted using incremental borrowing rate	(35,866)
<b>Total lease liabilities recognized under IFRS 16 at June 30, 2019</b>	<b>\$ 177,134</b>

Total lease payments made during the three months ended June 30, 2019 was \$44,664 (three months ended June 30, 2018 - \$76,671).

#### 4. TRADE AND OTHER RECEIVABLES

	June 30, 2019	December 31, 2018
Trade accounts receivable	\$ 2,820,909	\$ 2,443,399
Goods and services tax receivable	54,716	87,809
	<b>\$ 2,875,625</b>	<b>\$ 2,531,208</b>

During the six months ended June 30, 2019, the Company has written off accounts receivable of nil (year ended December 31, 2018 - \$182,022).

## LED MEDICAL DIAGNOSTICS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
(Unaudited and Expressed in U.S. Dollars, unless otherwise noted)

For the three and six months ended June 30, 2019 and 2018

### 5. INVENTORY

	June 30, 2018		December 31, 2018	
VELscope® products	\$	259,031	\$	237,315
Digital products		804,754		654,016
	\$	1,063,786	\$	891,331

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 at which inventories are expected to be sold. 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. During the six months ended June 30, 2019 and 2018 the Company had an inventory write down of nil (2018 - nil). During the six months ended June 30, 2019, \$2,235,653 of inventory was expensed in cost of goods sold (six months ended June 30, 2018 – \$2,515,540).

### 6. 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
<b>Balance, January 1, 2018</b>	\$ 584,095	\$ 127,160	\$ 59,681	\$ 770,936
Additions	16,998	4,686	-	21,684
<b>Balance, December 31, 2018</b>	\$ 601,093	\$ 131,846	\$ 59,681	\$ 792,620
Additions	-	7,628	-	7,628
<b>Balance, June 30, 2019</b>	\$ 601,093	\$ 139,474	\$ 59,681	\$ 800,248

#### Accumulated Depreciation

	Equipment	Computer Equipment	Leasehold Improvements	Total
<b>Balance, January 1, 2018</b>	\$ 526,156	\$ 69,751	\$ 22,532	\$ 618,439
Depreciation	33,404	25,909	8,971	68,284
Disposals	14,324	-	28,178	42,502
<b>Balance, December 31, 2018</b>	\$ 573,884	\$ 95,660	\$ 59,681	\$ 729,225
Depreciation	4,171	9,984	-	14,155
Disposals	-	-	-	-
<b>Balance, June 30, 2019</b>	\$ 578,055	\$ 105,644	\$ 59,681	\$ 743,380

#### Carrying Value

	Equipment	Computer Equipment	Leasehold Improvements	Total
<b>Balance, June 30, 2019</b>	\$ 23,038	\$ 33,830	-	\$ 56,868
<b>Balance, December 31, 2018</b>	\$ 27,209	\$ 36,186	-	\$ 63,395

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### 7. INTANGIBLE ASSETS

The following table presents details of movement in the carrying value of the intangible assets by asset type:

#### Cost

	Acquired Software Technology	Customer Base	Patents	Brand	Total
<b>Balance, January 1, 2018</b>	\$ 6,780,000	\$ 960,000	\$ 470,000-	\$ 141,000	\$ 8,351,000
Additions	-	-	-	-	-
<b>Balance, December 31, 2018</b>	<b>\$ 6,780,000</b>	<b>\$ 960,000</b>	<b>\$ 470,000</b>	<b>\$ 141,000</b>	<b>\$ 8,351,000</b>
Additions	-	-	-	-	-
<b>Balance, June 30, 2019</b>	<b>\$ 6,780,000</b>	<b>\$ 960,000</b>	<b>\$ 470,000</b>	<b>\$ 141,000</b>	<b>\$ 8,351,000</b>

#### Accumulated Amortization

	Acquired Software Technology	Customer Base	Patents	Brand	Total
<b>Balance, January 1, 2018</b>	\$ 593,250	\$ 84,000	\$ 41,125	\$ 12,338	\$ 730,713
Amortization	678,000	96,000	47,000	14,100	835,100
<b>Balance, December 31, 2018</b>	<b>\$ 1,271,250</b>	<b>\$ 180,000</b>	<b>\$ 88,125</b>	<b>\$ 26,438</b>	<b>\$ 1,565,813</b>
Amortization	339,000	48,000	23,500	7,050	417,550
<b>Balance, June 30, 2019</b>	<b>\$ 1,610,250</b>	<b>\$ 228,000</b>	<b>\$ 111,625</b>	<b>\$ 33,488</b>	<b>\$ 1,983,363</b>

#### Carrying Value

	Acquired Software Technology	Customer Base	Patents	Brand	Total
<b>Balance, June 30, 2019</b>	<b>\$ 5,169,750</b>	<b>\$ 732,000</b>	<b>\$ 358,375</b>	<b>\$ 107,512</b>	<b>\$ 6,367,637</b>
<b>Balance, December 31, 2018</b>	<b>\$ 5,508,750</b>	<b>\$ 780,000</b>	<b>\$ 381,875</b>	<b>\$ 114,562</b>	<b>\$ 6,785,187</b>

### 8. GOODWILL

	Goodwill
<b>Balance, January 1, 2018</b>	\$ 1,868,130
Additions (impairment)	-
<b>Balance, December 31, 2018</b>	<b>\$ 1,868,130</b>
Additions (impairment)	-
<b>Balance, June 30, 2019</b>	<b>\$ 1,868,130</b>

Goodwill acquired with Apteryx primarily comprises of the expertise and reputation of the assembled workforce.

The Company performed the annual impairment tests of goodwill and intangible assets of Apteryx as at December 31, 2018. The impairment test performed resulted in no impairment of goodwill, or intangible assets as at December 31, 2018.

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### 9. TRADE PAYABLES AND ACCRUED LIABILITIES

	June 30, 2018	December 31, 2018
Trade payables	\$ 1,668,394	\$ 1,004,134
Accrued liabilities	627,436	572,819
State and provincial sales tax payable	566,487	465,471
	<b>\$ 2,862,317</b>	<b>\$ 2,042,424</b>

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.

### 10. COMMITMENTS AND CONTINGENCIES

- a) The Company has operating leases with respect to its operating premises in Vancouver, B.C. and Akron, Ohio. The aggregate of minimum lease payments as at June 30, 2019 are as follows:

2019	67,262
2020	93,421
2021	85,200
<b>Total future minimum lease payments</b>	<b>\$ 245,883</b>

The total amount of lease payments recognized as an expense during the six months ended June 30, 2019 was \$89,426 (six months ended June 30, 2018 - \$153,359). The Company elected to terminate a long-term lease obligation for the Atlanta, GA office on December 31, 2018 and as such there are no future minimum lease payments relating to this location.

- b) The Company entered into an agreement with the British Columbia Cancer Agency to pay royalties at a rate of 0.75% of VELscope® until June 24, 2018. As this agreement concluded on June 24, 2018, the Company has not accrued any royalties for the six months ended June 30, 2019 (June 30, 2018 - \$6,301). As at June 30, 2019, total royalties accrued but not paid was \$25,698 (June 30, 2018 - \$27,141), which are classified as a component of accrued liabilities.
- c) On August 1, 2014, the Company entered into a one-year consulting agreement ending July 31, 2015 with the former CEO of the Company whereby the former CEO would be paid CDN\$295,000 annually and will receive royalties of 2% of all VELscope® sales until January 1, 2018. As this agreement has now concluded, the Company did not accrue any royalties during the six months ended June 30, 2019 (six months ended June 30, 2018 - \$0) and made payments of \$9,035 (six months ended June 30, 2018 - \$19,350). As at June 30, 2019 total royalties accrued but not paid was \$14,128 (June 30, 2018 - \$31,150) which was classified as a component of accrued liabilities.
- 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. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. To date, there are no claims or suits outstanding.

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## 11. DEBENTURES

On October 30, 2017 (the "closing date"), the Company issued second secured debentures with a principal amount of CDN\$2,500,000 (US\$1,938,690), maturing 24 months from the closing date. The debenture is attached with a 12% coupon and 531,250 common shares of the Company. The Company also issued 88,800 finder's warrants (the "Finder's Warrants") to arm's length brokers. Each Finder's Warrant is non-transferrable and exercisable at an exercise price of CDN\$1.00 at any time up to and including the date which is 24 months from the closing date. Transaction costs associated with this issuance were CDN \$232,032 (US\$179,935) and have been netted against the debenture proceeds received. Accrued interest relating to this debenture at June 30, 2019 is CDN\$0 (US\$0).

## 12. PREFERRED SHARES

On September 4, 2018, the Company closed a brokered private placement financing (the "Financing") through the issuance of 12,005,553 Preferred Shares (the "Preferred Shares") at a price of CDN\$0.45 per preferred share for aggregate gross proceeds to the Company of CDN\$5,402,499. Each Preferred Share holder is entitled to receive cumulative annual dividends equal to \$0.0225 per share (5%), payable in arrears quarterly in cash until maturity, which may be increased to an annual dividend of \$CDN0.054 (12%) under certain circumstances. Each preferred share is convertible into common shares of the Company at the holder's option on a one-for-one basis, and at the Company's option in certain circumstances. The Preferred Shares will mature five years from the closing at which time each Preferred Share will be redeemed by LED for CDN\$0.45 plus any unpaid dividends.

In addition, the Company has issued 8,147,071 Preferred Shares on the same terms as the Financing in exchange for CDN\$3,666,182 of the Company's outstanding senior secured debentures, including accrued interest thereon, on a dollar-for-dollar basis at a price of CDN\$0.45 per Preferred Share (the "Debenture Exchange"). No gain or loss was recognized on extinguishment of the debentures.

The Company agreed to pay a cash commission to the Agents acting on behalf of the Company for the Financing of 6% of the gross proceeds of the offering, 3% of the gross proceeds exchanged under the Debenture Exchange and 604,579 non-transferrable broker warrants (the "Broker's Warrants") equal to 3% of the aggregate number of Preferred Shares issued in connection with the Financing and Debenture Exchange. Each Broker Warrant entitles the holder to acquire one common share in the capital of the Company for a period of 24 months from the closing date at an exercise price of CDN\$0.45 per share.

Certain related parties of LED (director and officer) acquired 170,000 Preferred Shares in a concurrent non-brokered direct private placement at a price of CDN\$0.45 per preferred share for aggregate gross proceeds of CDN\$76,500.

Below is an aggregate of the preferred share transactions:

	Preferred shares issued	CDN\$
Brokered private placement of preferred shares at CDN\$0.45 per share	12,005,553	\$ 5,402,499
Preferred shares exchanged for debentures at CDN\$0.45 per share	8,147,071	3,666,182
Non-brokered placement to LED related parties at CDN\$0.45 per share	170,000	76,500
<b>Total</b>	<b>20,322,624</b>	<b>\$ 9,145,181</b>

The terms of the preferred share agreement are inclusive of a dividend escalation clause which may increase the annual dividend payable from 5% to 12% based on failure to comply with two covenants. The two covenants relate to the achievement of a minimum EBITDA balance and if the Company does not achieve the minimum EBITDA balance, the Company must maintain a minimum cash balance. The covenants are in effect each year until maturity in 2023. For the 2018 year, the Company did not comply with the minimum EBITDA covenant due to transaction costs associated with closing of the Financing and Debenture Exchange, however the Company did comply with the minimum cash balance covenant for 2018 and as such there is no impact on the annual dividend rate payable. The current cash obligations for the preferred shares is a 5% annual dividend, paid quarterly in arrears.

As these Preferred Shares consist of a defined fixed maturity period, are convertible into common shares at their maturity and have predetermined periodic dividend obligations, they hold certain characteristics of a debt instrument and have therefore been classified as a non-current liability in the financial statements of the Company.

The above noted terms of the Preferred Share agreement give rise to an inherent embedded derivative liability component relating to the conversion of preferred shares to common shares. The embedded derivative liability arises due the conversion taking place at a fixed Canadian dollar (\$CDN) redemption rate, while the Company maintains a USD functional currency.

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### 12. PREFERRED SHARES (cont'd)

The embedded derivative liability component has been separately measured at fair value as at December 31, 2018 and subsequently re-measured at June 30, 2019, whereby related changes in fair value are recorded as a gain or loss in the consolidated statement of operations and comprehensive loss, as detailed below. The fair value of the embedded derivative was determined using a Binomial tree model (see Note 20). The revaluation to fair value of the embedded derivative liability component at June 30, 2019 resulted in a loss of \$40,828.

The remainder of the preferred share liability balance, net of the embedded derivative component, was initially recorded at fair value at the date of the transaction on September 4, 2018. Subsequent to inception, the preferred share liability is accreted to face value using an effective annual interest rate of 29.88%.

Transaction costs associated with the brokered preferred share issuance amounted to CDN \$766,797 (US\$581,675) and has been allocated pro rata between the derivative liability and the preferred share liability. Transaction costs allocated to the derivative liability were immediately expensed. Transaction costs allocated to the preferred share liability are accreted over a period equivalent to the maturity period of the Preferred Shares, being five years from the date of closing (September 4, 2023).

A summary of the preferred share liability for the three months ended June 30, 2019 is as follows (in USD):

	<b>June 30, 2019</b>
Balance as at March 31, 2019	<b>\$ 2,671,244</b>
Interest Accretion	<b>\$ 118,545</b>
Foreign Exchange (Gain) / Loss	<b>\$ 53,457</b>
<b>Total at June 30, 2019</b>	<b>\$ 2,843,246</b>

A summary of the derivative liability for the three months ended June 30, 2019 is as follows (in USD):

	<b>June 30, 2019</b>
Balance as at March 31, 2019	<b>\$ 3,399,943</b>
Revaluation (Gain) / Loss	<b>\$ 40,828</b>
Foreign Exchange (Gain) / Loss	<b>\$ 65,668</b>
<b>Total at June 30, 2019</b>	<b>\$ 3,506,439</b>

A summary of the total preferred share and derivate liability components is as follows (in USD):

	September 4, 2018	March 31, 2019	<b>June 30, 2019</b>
Preferred Shares	\$ 2,461,402	\$ 2,671,244	<b>\$ 2,843,246</b>
Derivative Liability	\$ 4,249,948	\$ 3,399,943	<b>\$ 3,506,439</b>
<b>Total</b>	<b>\$ 6,711,350</b>	<b>\$ 6,071,187</b>	<b>\$ 6,349,684</b>

A summary of the interest and revaluation gain/(loss) recorded in the consolidated statement of operations and comprehensive loss components is as follows (in USD):

	<b>Three months ended June 30, 2019</b>	Three months ended June 30, 2018
Dividend Cash Interest Expense	<b>\$ 85,473</b>	-
Preferred Share Accretion Interest Expense	<b>\$ 118,545</b>	-
<b>Total interest expense in period</b>	<b>\$ 204,019</b>	-
<b>Gain on revaluation of derivative liabilities</b>	<b>\$ 40,828</b>	-



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### 13. 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.

The remuneration of directors and key management of the Company for the three and six months ended June 30, 2019 and 2018 are as follows:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Short-term compensation	\$ 132,855	\$ 151,509	\$ 265,032	\$ 298,085
Stock-based payments	\$ 18,317	\$ 77,328	\$ 60,303	\$ 132,224
<b>Total</b>	<b>\$ 151,171</b>	<b>\$ 229,138</b>	<b>\$ 325,335</b>	<b>\$ 430,309</b>

### 14. WARRANTS

On October 30, 2017, the Company issued 88,800 finder's warrants to arm's length brokers as part of a debenture financing. Each Finders' Warrant is non-transferrable and exercisable into one common share of the capital of the Company at an exercise price of CDN\$1.00 for a period of 24 months from the closing date. The fair value of the Finder's Warrants was calculated using the Black-Scholes pricing model and was valued at US\$17,562.

On September 4, 2018, the Company issued 604,579 finder's warrants to arm's length brokers as part of a preferred share financing. Each Finders' Warrant is non-transferrable and exercisable into one common share of the capital of the Company at an exercise price of CDN\$0.45 for a period of 24 months from the closing date. The fair value of the Finder's Warrants was calculated using the Black-Scholes pricing model and was valued at US\$112,913.

The Finders' Warrants were treated as stock-based payment and recorded in equity.

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

	June 30, 2019		December 31, 2018	
	Number of Warrants	Weighted Average Exercise Price (CDN\$)	Number of Warrants	Weighted Average Exercise Price (CDN\$)
Warrants outstanding, beginning of period	13,090,448	0.97	12,485,869	1.00
Issued	-	-	604,579	0.45
Exercised	-	-	-	-
Expired	(12,397,069)	0.97	-	-
<b>Warrants outstanding, end of period</b>	<b>693,379</b>	<b>0.52</b>	<b>13,090,448</b>	<b>0.97</b>
<b>Warrants exercisable, end of period</b>	<b>693,379</b>	<b>0.52</b>	<b>13,090,448</b>	<b>0.97</b>

The following table summarizes information about the Company's warrants outstanding at June 30, 2019:

Exercise Prices	Warrants Outstanding		Warrants Exercisable	
	Number Outstanding	Weighted Average Remaining Term (Years)	Number Exercisable	Weighted Average Remaining Term (Years)
CDN\$1.00	88,800	0.33	88,800	0.33
CDN\$0.45	604,579	1.19	604,579	1.19
	<b>693,379</b>	<b>1.08</b>	<b>693,379</b>	<b>1.08</b>



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### 14. WARRANTS (cont'd)

The following table summarizes information about the Company's warrants outstanding at December 31, 2018:

Exercise Prices	Warrants Outstanding		Warrants Exercisable	
	Number Outstanding	Weighted Average Remaining Term (Years)	Number Exercisable	Weighted Average Remaining Term (Years)
CDN\$1.00	12,485,869	0.11	12,485,869	0.11
CDN\$0.45	604,579	1.68	604,579	1.68
	<b>13,090,448</b>	<b>0.18</b>	<b>13,090,448</b>	<b>0.18</b>

### 15. SHARE CAPITAL

#### Authorized share capital

Unlimited number of common shares without par value

	Number of Common Shares	Amount
<b>Outstanding, January 1, 2018</b>	<b>37,914,636</b>	<b>\$ 50,944,234</b>
Issuance of share on exercise of DSU	24,000	-
<b>Outstanding, December 31, 2018</b>	<b>37,938,636</b>	<b>\$ 50,944,234</b>
Shares issued as settlement on the purchase of Apteryx	846,460	450,000
Settlement of share capital upon expiry of unexercised warrants	-	363,812
<b>Outstanding, June 30, 2019</b>	<b>38,785,096</b>	<b>\$ 51,758,046</b>

On February 10, 2019, the Company issued 846,460 common shares of the Company at CDN\$0.70, representing US\$450,000 of value, as part of the deferred consideration for the acquisition of Apteryx, Inc.

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### 16. 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 Options (Post Consolidation)	Weighted Average Exercise Price in (CDN\$)
<b>Outstanding, January 1, 2018</b>	<b>3,237,002</b>	<b>\$ 1.12</b>
Options granted	660,000	0.42
Options forfeited	(434,352)	0.85
Options expired	(19,000)	3.08
<b>Outstanding, December 31, 2018</b>	<b>3,443,650</b>	<b>\$ 0.96</b>
Options granted	-	-
Options forfeited	(104,378)	\$ 0.61
Options expired	(80,000)	\$ 1.30
<b>Outstanding, June 30, 2019</b>	<b>3,259,272</b>	<b>\$ 0.96</b>

The options outstanding at June 30, 2019 have an exercises price in the range of CDN\$0.42 to \$4.90 (December 31, 2018 – CDN\$0.42 to \$4.90) and a weighted average contractual life of 2.22 years (December 31, 2018 – 3.47 years). The amount of options exercisable at the end of June 30, 2019 was 2,252,182 (December 31, 2018 – 1,490,802). The weighted average exercise price of the options exercisable at the end of the year was \$1.05.

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

Grant Date of Share Options	Share Price in CDN\$	Exercise Price	Annual Dividend Yield of Share Options	Volatility	Risk-Free Interest Rate	Expected Life of the Share Options
February 5, 2016	\$1.70	\$1.80	Nil	108.56%	0.38%	8 years
May 25, 2016	\$1.30	\$1.80	Nil	107.90%	0.63%	3 years
April 10, 2017	\$0.80	\$1.00	Nil	108.56%	0.76%	2 years
April 10, 2017	\$0.80	\$1.00	Nil	108.56%	0.76%	5 years
April 10, 2017	\$0.80	\$0.90	Nil	108.56%	0.76%	5 years
May 31, 2017	\$0.80	\$0.90	Nil	108.56%	0.69%	5 years
May 8, 2018	\$0.38	\$0.42	Nil	106.09%	1.90%	5 years

For the six months ended June 30, 2019, the Company recognized \$98,959 of stock-based compensation expense (for the six months ended June 30, 2018 – \$201,261). Forfeiture rate is estimated based upon prior year forfeitures as a percentage of the total amount of options issued.

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### 17. 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
<b>Outstanding, January 1, 2018</b>	<b>36,000</b>	<b>2.50</b>
Granted	-	-
Exercised	(24,000)	-
<b>Outstanding, December 31, 2018</b>	<b>12,000</b>	<b>2.50</b>
Granted	-	-
Exercised	-	-
<b>Outstanding, June 30, 2019</b>	<b>12,000</b>	<b>2.50</b>

All DSUs are exercisable as of June 30, 2019. The contractual life is dependent upon service provided to the Company. During the twelve months ended December 31, 2018, DSUs granted to previous Directors were exercised as they are no longer on the Board of Directors. During the six months ended June 30, 2019 the Company recorded an expense of \$Nil (2018 - \$Nil).

### 18. SEGMENTED INFORMATION

The Company operates primarily in a single geographical segment, being North America. The North American segment makes up over 98% of the Company's sales. The Company operates two commercial segments related to 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.

The Company's two operating segments are 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.

The Hardware operating segment represents the Company's VELscope® Vx oral assessment device, accompanying consumables and the Digital Imaging hardware products that provides dentists and oral health specialists with advanced diagnostic imaging products. The Software operating segment includes Apteryx's digital imaging software product line and customer support services.

The major operating segments are summarized as follows for the three and six months ended June 30, 2019 and June 30, 2018:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Hardware	<b>\$ 2,500,983</b>	\$ 2,430,901	<b>\$ 4,753,855</b>	\$ 4,691,625
Software	<b>\$ 1,432,101</b>	\$ 1,240,531	<b>\$ 2,993,695</b>	\$ 2,311,654
<b>Total</b>	<b>\$ 3,933,084</b>	\$ 3,671,432	<b>\$ 7,747,550</b>	\$ 7,003,279

The Company had no customers that represent 10% or more of the total revenue for the six months ended June 30, 2019 or 2018.

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### 19. 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) and debt 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 year.

The capital of the Company consists of the following items, net of cash:

	June 30, 2019	December 31, 2018
Equity/Deficiency	\$ 3,790,621	\$ 4,087,407
Debentures	1,860,159	2,558,248
Preferred shares	2,843,246	2,504,044
Derivative preferred share liability	3,506,439	2,901,787
	<b>\$ 12,000,465</b>	<b>\$ 12,051,486</b>
Less: Cash	(2,777,891)	(2,827,882)
	<b>\$ 9,222,574</b>	<b>\$ 9,223,604</b>

### 20. 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:

	June 30, 2019	December 31, 2018
Amortized cost:		
Cash	\$ 2,777,891	\$ 2,827,882
Trade and receivables	2,875,625	2,531,208
	<b>\$ 5,653,516</b>	<b>\$ 5,359,090</b>

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

	June 30, 2019	December 31, 2018
FVPTL:		
Warrants	\$ -	\$ 155
Derivative preferred share liability	3,506,439	2,901,787
	<b>\$ 3,506,439</b>	<b>\$ 2,901,942</b>

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

	June 30, 2019	December 31, 2018
Other financial liabilities:		
Trades payable and accrued liabilities	\$ 2,295,830	\$ 1,576,953
Debentures	1,860,159	2,558,248
Preferred Shares	2,843,246	2,504,044
Lease Liability (current)	73,515	-
Lease Liability	103,619	-
Deferred consideration on acquisition	-	450,000
	<b>\$ 7,176,369</b>	<b>\$ 7,089,245</b>

#### Fair value

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

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 June 30, 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 June 30, 2019
Derivative preferred share liability	-	-	\$ 3,506,439	\$ 3,506,439
<b>Total</b>	-	-	<b>\$ 3,506,439</b>	<b>\$ 3,506,439</b>

	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 preferred share liability	-	-	\$ 2,901,787	\$ 2,901,787
<b>Total</b>	-	<b>\$ 155</b>	<b>\$ 2,901,787</b>	<b>\$ 2,901,942</b>

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 June 30, 2019 are summarized below:

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

Valuation Date	June 30, 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\$ 0.41	CDN\$ 0.47
Volatility	89.00%	89.00%
Risk-free rate	1.39%	2.16%
Maturity	4.18 years	5 years

#### 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 receivables. The Company manages credit risk by placing cash with major Canadian and U.S. 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 June 30, 2019, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

As at June 30, 2019 and December 31, 2018, the Company's exposure to credit risk for these financial instruments was as follows:

	June 30, 2019	December 31, 2018
Cash	\$ 2,777,891	\$ 2,827,882
Trade and Other Receivables	2,875,625	2,531,208
	<b>\$ 5,653,516</b>	<b>\$ 5,359,090</b>

Trade and other receivable balances of \$2,875,625 as at June 30, 2018 (December 31, 2018 - \$2,443,399) were aged as follows in the below table. It does not include goods and services tax receivable of \$54,716 as at June 30, 2019 (December 31, 2018 - \$87,810).

	June 30, 2019	December 31, 2018
Current	\$ 2,182,015	\$ 1,583,848
31-60 days	165,098	313,987
Over 60 days	473,795	545,563
	<b>\$ 2,820,909</b>	<b>\$ 2,443,399</b>

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has 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.

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

The contractual maturities of the Company's trade payables as at June 30, 2019 are listed below. Refer to Note 10 for other contractual maturities, lease obligations and commitments that are not included in the table below.

Trade payables were aged as follows as at June 30, 2019 and December 31, 2018, respectively and do not include accrued liabilities and state and provincial sales tax payable. All trade payables are current liabilities:

	June 30, 2019	December 31, 2018
Current	\$ 1,659,456	\$ 946,334
31-60 days	1,700	6,389
Over 60 days	7,238	51,411
	<b>\$ 1,668,394</b>	<b>\$ 1,004,134</b>

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities at June 30, 2019:

	Within One Year	Between One and Five years
Trade payables and accrued liabilities	\$ 1,729,344	\$ -
Deferred revenue	705,416	-
Debenture	1,860,159	-
Lease Liability	73,515	103,619
Preferred Shares	-	2,843,246
	<b>\$ 4,368,434</b>	<b>\$ 2,946,865</b>

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities at December 31, 2018:

	Within One Year	Between One and Five years
Trade payables and accrued liabilities	\$ 1,576,953	\$ -
Deferred revenue	899,701	-
Debenture	2,558,248	-
Preferred Shares	-	2,504,044
Deferred consideration on acquisition	450,000	-
	<b>\$ 5,484,902</b>	<b>\$ 2,504,044</b>

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 June 30, 2019, the Company had not entered into any derivative contracts to manage this risk.

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

#### 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:

	June 30, 2019	December 31, 2018
	CDN\$	CDN\$
Cash	\$ 1,157,350	\$ 2,410,898
Trade receivables	59,210	44,054
Trade payable and accrued liabilities	(116,180)	(12,638)
<b>Net statement of financial position exposure</b>	<b>\$ 1,100,380</b>	<b>\$ 2,442,314</b>

### 21. NET INCOME (LOSS) PER SHARE

Net income (loss) attributable to ordinary shareholders (basic and diluted)

Net income (loss) per share is calculated using Net income (Loss)/weighted average shares outstanding.

	June 30, 2019	December 31, 2018
Net income (loss) for the year attributable to shareholders	(\$ 1,006,474)	\$ 816,450
Net income (loss) per share (basic and diluted)	(\$0.02)	\$ 0.02
Weighted average number of shares outstanding (basic and diluted)	38,588,680	37,915,820

### 22. EMPLOYEE BENEFITS AND DEPRECIATION AND AMORTIZATION

For the six months ended June 30, 2019, the Company has incurred \$3,058,172 of employee benefits (six months ended June 30, 2018 - \$3,057,323) and depreciation and amortization of \$469,375 (six months ended June 30, 2018 - \$652,210). Employee benefits include wages, commissions, bonuses, payroll taxes and employee benefits.