APTERYX IMAGING INC.
(FORMERLY LED MEDICAL DIAGNOSTICS INC.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(EXPRESSED IN U.S. DOLLARS)

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Independent Auditor's Report

To the Shareholders and Board of Directors of Apteryx Imaging Inc. (formerly LED Medical Diagnostics Inc.)

Opinion

We have audited the consolidated financial statements of Apteryx Imaging Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019, and December 31, 2018 and the consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has an accumulated deficit and a history of losses that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis and the Annual Information Form, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Riecken.

Grant Thornton LLP

Vancouver, Canada
April 28, 2020

Chartered Professional Accountants

APTERYX IMAGING INC.

Consolidated Statements of Financial Position

(Expressed in U.S. Dollars)

	Notes	as at December 31, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**$ 1,849,533**	$ 2,827,882
Trade and other receivables	4	**2,109,677**	2,531,208
Inventory	5	**1,124,937**	891,331
Prepaid expenses and deposits		**608,088**	476,633
		5,692,235	6,727,054
Non-current assets			
Property and equipment	6	**63,227**	63,395
Right-of-use lease asset	7	**150,678**	-
Intangible assets	8	**5,950,087**	6,785,187
Goodwill	9	**1,868,130**	1,868,130
Total assets		**$13,724,357**	$ 15,443,766
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables and accrued liabilities	10	**$ 2,503,884**	$ 2,042,424
Deferred revenue		**1,086,950**	899,701
Debentures	13	**-**	2,558,248
Lease liability	11	**78,900**	-
Preferred shares	14	**352,767**	335,127
Deferred consideration on acquisition		**-**	450,000
		4,022,501	6,285,500
Non-current liabilities			
Preferred shares	14	**2,792,468**	2,168,917
Derivative preferred share liability	14	**3,229,201**	2,901,787
Lease liability	11	**82,937**	-
Warrants	15	**-**	155
Total liabilities		**10,127,107**	11,356,359
Shareholders' equity			
Share capital	16	**$ 51,775,609**	$ 50,944,234
Stock-based payment reserve	17	**3,339,238**	3,139,368
Warrants reserve	15	**112,913**	494,287
Accumulated other comprehensive income		**474,458**	474,458
Accumulated deficit		**(52,104,968)**	(50,964,940)
Total shareholders' equity		**3,597,250**	4,087,407
Total liabilities and shareholders' equity		**$ 13,724,357**	$ 15,443,766

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 12)

Subsequent Events (Note 26)

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

Approved on behalf of the Board of Directors:

Chief Executive Officer
Dr. David Gane

Director
George Reznik

APTERYX IMAGING INC.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in U.S. Dollars)

For the years ended December 31, 2019 and 2018

	Notes	**Year ended December 31, 2019**	Year ended December 31, 2018
Revenues	19	**$ 15,544,157**	$ 14,215,812
Cost of goods sold		**5,093,037**	5,495,839
		10,451,120	8,719,973
Expenses			
Sales, marketing and support	24	**5,257,989**	4,935,183
Research and development	24	**1,399,242**	1,162,872
Administration	25	**2,111,452**	2,522,741
Stock-based compensation	17	**199,870**	339,892
Depreciation and amortization	6/7/8/9	**941,415**	903,384
		9,909,968	9,864,072
Operating income (loss)		**541,152**	(1,144,099)
Other expenses/(income)			
Change in fair value of Canadian dollar denominated warrants	15	**(155)**	(1,371,967)
Change in fair value of derivative preferred share liability	14	**168,020**	(1,248,281)
Foreign exchange (gain) loss		**342,648**	(463,411)
Other non-operating expenses		**6,299**	60,673
Interest expense	13/14	**1,175,395**	1,062,437
		1,692,207	(1,960,549)
Income (loss) and comprehensive income (loss) before income taxes		**($ 1,151,055)**	$ 816,450
Income tax expense		**-**	-
Net income (loss) and comprehensive income (loss) for the period		**($1,151,055)**	$ 816,450
Income (Loss) per share – basic	23	**($0.03)**	$ 0.02
Weighted average number of shares outstanding – basic		**38,687,695**	37,915,820
Income (Loss) per share – diluted	23	**($0.03)**	($ 0.00)
Weighted average number of shares outstanding – diluted		**38,687,695**	44,485,873

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

APTERYX IMAGING

APTERYX IMAGING INC.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in U.S. Dollars)

	Number of Shares	Share Capital	Stock-based Payments Reserves	Warrants Reserve	Accumulated deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2018	**37,914,636**	**$ 50,944,234**	**$ 2,799,476**	**$ 381,374**	**($ 51,781,389)**	**$ 474,458**	**$ 2,818,153**
Issuance of shares 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
Balance, December 31, 2018	**37,938,636**	**$ 50,944,234**	**$ 3,139,368**	**$ 494,287**	**($ 50,964,939)**	**$ 474,458**	**$ 4,087,408**
Adjustment from the adoption of IFRS 16	-	-	-	-	10,728	-	10,728
Adjusted balance at January 1, 2019	**37,938,636**	**$ 50,944,234**	**$ 3,139,368**	**$ 494,287**	**($ 50,954,212)**	**$ 474,458**	**$ 4,098,135**
Adjustments to prior year income	-	-	-	-	298	-	298
Shares issued as settlement on the purchase of Apteryx	846,460	450,000	-	-	-	-	450,000
Settlement of share capital on expiry of unexercised warrants	-	381,374	-	(381,374)	-	-	-
Stock based compensation	-	-	199,870	-	-	-	199,870
Net loss and comprehensive loss for the year	-	-	-	-	(1,151,055)	-	(1,151,055)
Balance, December 31, 2019	**38,785,096**	**$ 51,775,609**	**$ 3,339,238**	**$ 112,913**	**($ 52,104,968)**	**$ 474,458**	**$ 3,597,250**

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

APTERYX IMAGING INC.

Consolidated Statements of Cash Flows

(Expressed in U.S. Dollars)

For the years ended December 31, 2019 and 2018

	Year ended December 31, 2019	Year ended December 31, 2018
Cash flows from operating activities		
Net income (loss) for the period	**$ (1,151,055)**	$ 816,450
Adjustments to net income (loss) for items not involving cash:		
Depreciation and amortization	**941,415**	903,384
Loss on disposal of property and equipment	**-**	42,505
Change in fair value of Canadian dollar denominated warrants	**(155)**	(1,371,967)
Change in fair value of derivative preferred share liability	**168,020**	(1,248,281)
Lease liability	**-**	(61,011)
Stock-based compensation	**199,870**	339,892
Unrealized foreign exchange (gain)/loss	**344,284**	(222,518)
Interest accretion	**1,175,395**	887,013
Bad debt expense	**167,556**	182,022
	1,845,330	267,489
Changes in working capital assets and liabilities:		
Trade and other receivables	**253,976**	(1,134,860)
Inventory	**(233,606)**	(112,392)
Prepaid expenses and deposits	**(131,456)**	(43,361)
Trade payables and accrued liabilities	**374,810**	(149,391)
Deferred revenue	**187,249**	7,131
	450,973	(1,432,873)
Interest paid	**(182,116)**	(633,911)
Cash flows provided by (used in) operating activities	**2,114,187**	(1,799,295)
Cash flows from investing activities		
Purchase of equipment	**(30,808)**	(21,684)
Cash flows used in investing activities	**(30,808)**	(21,684)
Cash flows from financing activities		
Issuance of units, net of issuance costs	**-**	3,712,743
Payment of deferred consideration	**-**	(1,200,000)
Repayment of debentures	**(2,677,334)**	(711,868)
Lease payments	**(85,200)**	-
Dividend payments on preferred shares	**(257,694)**	-
Proceeds from debenture issuance	**-**	200,000
Cash flows provided by (used in) financing activities	**(3,020,228)**	2,000,875
Increase (Decrease) in cash and cash equivalents	**(936,849)**	179,896
Foreign exchange effect on cash and cash equivalents	**(41,500)**	222,518
Cash and cash equivalents, beginning of year	**2,827,882**	2,425,468
Cash and cash equivalents, end of year	**$ 1,849,533**	$ 2,827,882

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

APTERYX IMAGING

1. NATURE OF OPERATIONS AND GOING CONCERN

Apteryx Imaging Inc. (the "Company"), formerly LED Medical Diagnostics Inc., 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, then changed its name to Apteryx Imaging Inc. on September 3, 2019. The Company's head office and principal address are located at 780 – 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 XRAY.

The Company 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 consolidated financial statements of the Company, as at, and for the year ended December 31, 2019 and December 31, 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 profession 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 devices including the proprietary Tuxedo intraoral sensor and a suite of imaging software solutions including XVWeb® Software as a service (SaaS) and related services. 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 dental imaging software development and software support services.

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 had positive cash flow from operations of $2,114,187 and realized net comprehensive loss of $1,151,055 for the year ended December 31, 2019. As at December 31, 2019, the Company had an accumulated deficit of $52,104,968. 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 next 12-months. The following is considered in evaluating the going concern of the entity pertaining to the consolidated financial statements as at December 31, 2019:

- The Company has not achieved 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 preferred share dividend obligations over the next 12 months.
- 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 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 December 31, 2019 and as at the date of approval of these consolidated financial statements, the outcome of these activities is unknown and subject to considerable uncertainty. These consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties or if such adjustments would be material.

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements, which have been approved by the Board of Directors on April 28, 2020, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

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

The accompanying consolidated financial statements include the accounts of the Company and the following subsidiaries:

Name of Subsidiary	Country of Incorporation	Ownership Interest	
		December 31, 2019	December 31, 2018
LED Dental Inc.	Canada	100%	100%
LED Dental Ltd.	USA	100%	100%
Apteryx, Inc.	USA	100%	100%

<u>Determination of functional currency</u>

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

Name of Subsidiary	Functional Currency ($)
LED Dental Inc.	U.S.
LED Dental Ltd.	U.S.
Apteryx, Inc.	U.S.

<u>Foreign currency translation</u>

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

<u>Financial instruments</u>

Financial assets and liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition or when reclassified on the consolidated statement of financial position. Financial assets and liabilities are classified in the following measurement categories:

i) amortized cost; ii) fair value through other comprehensive income ("FVTOCI"); or iii) fair value through profit and loss ("FVTPL"). Initially, all financial assets and liabilities are recognized at fair value.

Financial Assets
Financial assets include cash and cash equivalents and trade and other receivables and are recognized initially at fair value and subsequently measured at amortized cost.

Financial Liabilities
Financial liabilities are recognized initially at fair value and in the case of financial liabilities not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, canceled, or expired. Trade payables and accrued liabilities, debentures and deferred consideration on acquisition are classified as financial liabilities to be subsequently measured at amortized cost.

Classification
Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Derecognition
The Company derecognizes a financial asset or liability when its contractual obligations are discharged or cancelled or expire.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Cash and cash equivalents

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

Property and equipment

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

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

Property and equipment are depreciated using the following useful lives and methods:

Asset Type	**Estimated Useful Life**	**Depreciation Policy**
Office equipment	5 years	straight-line method
Computer equipment	3 years	straight-line method
Leasehold improvements	term of lease	straight-line method

Intangible assets

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

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

Intangible assets are amortized using the following useful lives and methods:

Asset Type	Estimated Useful Life	Amortization Policy
Acquired software technology	10 years	straight-line method
Customer base	10 years	straight-line method
Patents & patent applications	10 years	straight-line method
Brand	10 years	straight-line method

The amortization method and estimates of useful lives ascribed to these other identifiable intangible assets are reviewed at least each financial year end and if necessary, adjusted on a prospective basis.

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses.

Research and development costs

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

Impairment of non-financial assets, goodwill and intangible assets

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

The carrying amount of the Company's indefinite life assets (which include Brand and Goodwill) is tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets may be impaired. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If deemed unsupportable, the change in the useful life from indefinite to finite life is made and amortization recognized on a prospective basis. An impairment loss is recognized when the carrying amount of an asset or its CGU exceeds its recoverable amount.
Impairment losses are recognized in the statement of operations and comprehensive income (loss).

The recoverable amount of assets is the greater of an asset's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses for each CGU reduce first the carrying amount of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Goodwill is tested annually for impairment.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. An impairment loss with respect to goodwill is never reversed.

Equity

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

From time to time the Company issues units consisting of common shares and common share purchase warrants. The Company estimates the fair value of the warrants based on the Black-Scholes valuation model. The residual difference, if any, between the unit price and the fair value of each warrant represents the fair value attributable to each common share. Share issue costs, which includes commissions, facilitation payments, professional fees and regulatory fees, are charged directly to share capital.

Deferred revenue

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

Leases

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

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

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

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Income taxes

Current income tax

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

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

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

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

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

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

<u>Stock-based payments</u>

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

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

The Company has a Deferred Share Unit Plan ("DSU Plan") for the company's directors, executive officers and service providers. The Company recognizes compensation expense for Deferred Share Units ("DSUs") based on the market price of the Company's stock. A DSU is convertible to shares only and are valued by reference to the fair value of the equity instruments granted. All of the Company DSUs are equity-settled instruments (See Note 18).

<u>Warrants</u>

All warrants granted are valued using the fair value method which is determined by the Black-Scholes option pricing model with assumptions for risk free interest rates, dividend yields, volatility factors and an expected life of the warrants. Warrants issued in other than functional currency are accounted for as derivatives liabilities at fair value and revalued every period with the change being recorded as income or expense.

Warrants issued to brokers as a finders' fee are treated as stock-based payment and netted against equity or debt depending on the financing arranged by the broker and are not revalued every period.

Changes in the underlying assumptions can materially affect the fair value estimates.

Research and development tax credits

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

Net income (loss) per share

The Company presents basic and diluted net income (loss) per share data for its common shares. Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for its own shares held. Diluted net income (loss) per share is determined by adjusting the net income (loss) attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for its own shares held, for the effects of all dilutive potential common shares.

Significant accounting judgments estimates and assumptions

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

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

Expected Credit Losses

The Company recognizes an allowance for expected credit losses (“ECL”) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. A financial asset is considered in default when contractual payments are 365 days past due. Therefore, the Company does not track changes in credit risk but makes a loss allowance based on 12 months ECL.

A financial asset may also be considered to be in default if internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Impairment of long-lived assets, goodwill, patents and intellectual property

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

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

Estimated useful lives of long-lived assets

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

Equity-settled stock-based compensation

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

Warranty provision

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

Provisions and Contingencies

Provisions are liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the consolidated financial statements and the amount can be reasonably estimated. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company and its subsidiaries. The adequacy of provisions is regularly assessed as new information becomes available.

Any reimbursement that the Company is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

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

Determination of cash-generating units ("CGUs")

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

New Standards and Interpretations Adopted

The Company applied, for the first time, IFRS 16 – Leases. 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 modified 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 statement 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.

(Expressed in U.S. Dollars, unless otherwise noted)

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.

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, United States and Vancouver, British Columbia, Canada.

There is no material impact to basic and fully diluted net income (loss) 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 approximates the Company's incremental borrowing rate. The difference between the total of the minimum lease payments set out in Note 12 (a) to the Company's consolidated financial statements for the year ended December 31, 2018 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.

The following is a reconciliation of total operating lease commitments at December 31, 2018 (as disclosed in the Company's consolidated financial statements 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 January 1, 2019	**$ 215,291**

(Expressed in U.S. Dollars, unless otherwise noted)

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.

4. TRADE AND OTHER RECEIVABLES

	December 31, 2019	December 31, 2018
Trade accounts receivable	**$ 2,091,356**	$ 2,443,399
Goods and services tax receivable	**18,321**	87,809
	2,109,677	$ 2,531,208

During the year ended December 31, 2019, the Company has written off accounts receivable of $165,056 (year ended December 31, 2018 - $182,022).

As at December 31, 2019, the Company has recorded a provision for doubtful accounts of $129,442 (as at December 31, 2018 - $68,813).

5. INVENTORY

	December 31, 2019	December 31, 2018
VELscope® products	**$ 307,501**	$ 237,315
Digital Imaging products	**817,436**	654,016
	$ 1,124,937	$ 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 year ended December 31, 2019 the Company had an inventory write-down of $163,185 (year ended December 31, 2018 - $230,620). During the year ended December 31, 2019, $4,544,438 of inventory was expensed in cost of goods sold (year ended December 31, 2018 – $4,426,050).

(Expressed in U.S. Dollars, unless otherwise noted)

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
Balance, January 1, 2018	**$ 584,095**	**$ 127,160**	**$ 59,681**	**$ 770,936**
Additions	16,998	4,686	-	21,684
Balance, December 31, 2018	**$ 601,093**	**$ 131,846**	**$ 59,681**	**$ 792,620**
Additions	11,524	19,284	-	30,808
Balance, December 31, 2019	**$ 612,617**	**$ 151,130**	**$ 59,681**	**$ 823,428**

Accumulated Depreciation

	Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, January 1, 2018	**$ 526,156**	**$ 69,751**	**$ 22,532**	**$ 618,439**
Depreciation	33,404	25,909	8,971	68,284
Disposals	14,324	-	28,178	42,502
Balance, December 31, 2018	**$ 573,884**	**$ 95,660**	**$ 59,681**	**$ 729,225**
Depreciation	8,678	22,297	-	30,975
Disposals	-	-	-	-
Balance, December 31, 2019	**$ 582,562**	**$ 117,957**	**$ 59,681**	**$ 760,200**

Carrying Value

	Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, December 31, 2018	$ 27,209	$ 36,186	-	$ 63,395
Balance, December 31, 2019	**$ 30,055**	**$ 33,173**	**-**	**$ 63,228**

7. RIGHT-OF-USE ASSET

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

	December 31, 2019
Balance, December 31, 2018	**$ -**
Additions on adoption of IFRS 16	**226,018**
Purchases	-
Depreciation	(75,340)
Balance, December 31, 2019	**$ 150,678**

(Expressed in U.S. Dollars, unless otherwise noted)

8. 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
Balance, January 1, 2018	$ 6,780,000	$ 960,000	$ 470,000	$ 141,000	$ 8,351,000
Additions	-	-	-	-	-
Balance, December 31, 2018	**$ 6,780,000**	**$ 960,000**	**$ 470,000**	**$ 141,000**	**$ 8,351,000**
Additions	-	-	-	-	-
Balance, December 31, 2019	**$ 6,780,000**	**$ 960,000**	**$ 470,000**	**$ 141,000**	**$ 8,351,000**

Accumulated Amortization

	Acquired Software Technology	Customer Base	Patents	Brand	Total
Balance, January 1, 2018	$ 593,250	$ 84,000	$ 41,125	$ 12,338	$ 730,713
Amortization	678,000	96,000	47,000	14,100	835,100
Balance, December 31, 2018	**$ 1,271,250**	**$ 180,000**	**$ 88,125**	**$ 26,438**	**$ 1,565,813**
Amortization	678,000	96,000	47,000	14,100	835,100
Balance, December 31, 2019	**$ 1,949,250**	**$ 276,000**	**$ 135,125**	**$ 40,538**	**$ 2,400,913**

Carrying Value

	Acquired Software Technology	Customer Base	Patents	Brand	Total
Balance, December 31, 2018	$ 5,508,750	$ 780,000	$ 381,875	$ 114,562	$ 6,785,187
Balance, December 31, 2019	**$ 4,830,750**	**$ 684,000**	**$ 334,875**	**$ 100,462**	**$ 5,950,087**

9. GOODWILL

Goodwill represents the future economic benefits arising from the acquisition of Apteryx, Inc. that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses. Goodwill acquired with the acquisition of Apteryx primarily comprises of the expertise and reputation of the assembled workforce.

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). The acquired intangible assets acquired as part of the Apteryx acquisition are treated as one singular cash-generating unit (CGU). Any impairment to the acquired intangible assets would be applied firstly to goodwill then to each individual identified intangible asset proportionally.

An impairment loss is recognised for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from the cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget. Discount factors are determined and reflect current market assessments of the time value of money and Company-specific risk factors.

The Company performed the annual impairment tests of goodwill and intangible assets of Apteryx as at December 31, 2019 and December 31, 2018. The impairment test performed resulted in no impairment of goodwill, or intangible assets as at December 31, 2019 or December 31, 2018.

Goodwill as at December 31, 2019 is $1,868,130 (as at December 31, 2018 - $1,868,130).

(Expressed in U.S. Dollars, unless otherwise noted)

10. TRADE PAYABLES AND ACCRUED LIABILITIES

	December 31, 2019	December 31, 2018
Trade payables	**$ 857,637**	$ 1,004,134
Accrued liabilities	**1,032,021**	572,819
State and provincial sales tax payable	**614,227**	465,471
	$ 2,503,884	$ 2,042,424

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 but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

11. LEASES

The Company has operating leases with respect to its operating premises in Akron, Ohio, United States; Atlanta, Georgia, United States; and Vancouver, British Columbia, Canada. With the exception of short-term leases, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

The Company decided to apply recognition exemptions to short-term leases of office space in Atlanta, Georgia, United States and Vancouver, British Columbia, Canada. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

Below is a summary of the activity related to the Company's lease liabilities:

	December 31, 2019	December 31, 2018
Maturity Analysis – contractual undiscounted cash flows		
Less than one year	$ 153,623	$ 93,061
One to three years	85,200	170,400
Total undiscounted lease liabilities	**$ 238,823**	**$ 263,461**
Lease liabilities included in Consolidated Statements of Financial Position	**$ 161,837**	**$ 215,291**
Current	78,900	75,373
Non-current	82,937	139,918

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

Total operating lease commitments disclosed at December 31, 2019	**$ 238,823**
Recognition exemptions for leases with remaining lease term of less than 12 months	(68,423)
Discounted using incremental borrowing rate	(8,563)
Total lease liabilities recognized under IFRS 16 at December 31, 2019	**$ 161,837**

Total lease expense recognized for the year ended December 31, 2019 is $90,944 (year ended December 31, 2018 - $415,903, including $172,000 one-time payment for the early exit of long-term lease).

(Expressed in U.S. Dollars, unless otherwise noted)

12. COMMITMENTS AND CONTINGENCIES

a) The Company has operating leases with respect to its premises in Vancouver, British Columbia, Canada; Akron, Ohio, United States; and Atlanta, Georgia, United States. The aggregate of minimum lease payments as at December 31, 2019:

2020		153,623
2021		85,200
Total future minimum lease payments	**$**	**238,823**

b) The Company entered into an agreement with the British Columbia Cancer Agency to pay royalties at a rate of 0.75% of VELscope® sales until June 24, 2018. As this agreement concluded on June 24, 2018, the Company has not accrued any royalties during the year ended December 31, 2019 (December 31, 2018 - $3,818). As at December 31, 2019, total royalties accrued but not paid was $25,956 (December 31, 2018 – $24,658), 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 year ended December 31, 2019 (year ended December 31, 2018 - nil) and made payments of $22,351 (year ended December 31, 2018 - $28,149). As at December 31, 2019 total royalties accrued but not paid was nil (December 31, 2018 – $22,351) which was classified as a component of accrued liabilities.

d) The Company warrants that its software and hardware products will operate substantially in conformity with product documentation and that the products will be free from defect. 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.

e) The Company may be subject to a variety of claims and lawsuits 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 lawsuits outstanding.

13. DEBENTURES

On February 10, 2017 (the "closing date"), the Company issued senior secured debentures with a principal amount of CDN$1,150,000 (US$875,857) maturing 24 months from the closing date. The debenture is attached with a 12% coupon and 244,375 common shares of the Company. The Company issued 35,200 finder's warrants (the "Finder's Warrants") to arm's length finders. Transaction costs associated with this issuance were CDN$35,288 (US$26,876) and have been netted against the debenture proceeds received. On February 10, 2019, the Company repaid these senior secured debentures with a principal amount of CDN$1,150,000 (US$866,108) plus accrued interest owed to this date totaling CDN$15,717 (US$11,837). There are no further remaining obligations in relation to the February 10, 2017 debenture.

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. On October 30, 2019, the Company repaid these senior secured debentures with a principal amount of CDN$2,500,000 (US$1,896,440) plus accrued interest owed to this date totaling CDN$25,000 (US$18,964). There are no further remaining obligations in relation to the October 30, 2017 debenture.

(Expressed in U.S. Dollars, unless otherwise noted)

14. 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 (US$4,098,216). 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 the Company 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 (US$2,781,084) 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 the Company (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 (US$58,031).

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 related parties at CDN$0.45 per share	170,000	76,500
Total	**20,322,624**	**$ 9,145,181**

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 was no impact on the annual dividend rate payable for the 2019 year. For the 2019 year, the Company complied with the minimum EBITDA covenant and the minimum cash balance covenant and as such there is no escalation to the annual dividend rate for the subsequent 2020 year. The current cash obligations for the preferred shares is a 5% annual dividend, paid quarterly in arrears, at the discretion of the Company’s board of directors, otherwise if not paid in cash, accrued until paid. As at December 31, 2019 all quarterly interest has been paid in cash and accrued interest at December 31, 2019 is $0.

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 liability in the consolidated financial statements of the Company. On the basis of Preferred Shares being classified as a liability under IFRS, the dividends paid have been classified as interest for the years ended December 31, 2019 and December 31, 2018.

The above noted terms of the Preferred Share agreement give rise to an embedded derivative liability 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.

The embedded derivative liability component has been separately measured at fair value as at December 31, 2018 and subsequently re-measured at each subsequent quarter, 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. There are two components of the derivative liability which have had their fair values determined separately using a Monte Carlo simulation model and a Black-Scholes model (see Note 21).

(Expressed in U.S. Dollars, unless otherwise noted)

14. PREFERRED SHARES (cont'd)

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 have 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 year ended December 31, 2019 is as follows (in USD):

	December 31, 2019
Balance as at December 31, 2018	**$ 2,504,044**
Interest Accretion	**842,445**
Dividends Paid	**(344,644)**
Foreign Exchange (Gain) / Loss	**143,390**
Total at December 31, 2019	**$ 3,145,235**

A summary of the derivative liability for the year ended December 31, 2019 is as follows (in USD):

	December 31, 2019
Balance as at December 31, 2018	**$ 2,901,787**
Revaluation Gain / (Loss)	**$ 168,020**
Foreign Exchange (Gain) / Loss	**$ 159,394**
Total at December 31, 2019	**$ 3,229,201**

For the year ended December 31, 2019, the fair value of the derivative liability relating to the conversion feature without the forced conversion was calculated using a Black-Scholes model. Key inputs and assumptions used in the model at December 31, 2019 is summarized below:

Valuation Date	**December 31, 2019**
Principal amount	CDN$ 9,145,181
Preferred shares outstanding	20,322,624
Share price, day 1	0.365
Volatility	92.83%
Risk-free rate	1.69%
Conversion price	CDN$0.45
Term to maturity	3.678 years

(Expressed in U.S. Dollars, unless otherwise noted)

14. PREFERRED SHARES (cont'd)

For the year ended December 31, 2019, the fair value of the derivative liability component relating to the forced conversion option was calculated using a Monte Carlo simulation model ("Monte Carlo Model"). This derivative has been classified as Level 3 in the fair value hierarchy. Key inputs and assumptions used in the model at December 31, 2019 is summarized below:

Valuation Date	**December 31, 2019**
Principal amount	CDN$ 9,145,181
Preferred shares outstanding	20,322,624
Share price, day 1	0.365
Volatility	92.83%
Risk-free rate	1.69%
Conversion price	CDN$0.45
Forced conversion price	CDN$1.50
Term to maturity	3.678 years

For the year ended December 31, 2018, the fair value of the derivative liability component 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 December 31, 2018 is summarized below:

Valuation Date	**December 31, 2018**
Principal amount	CDN$ 9,145,181
Preferred shares outstanding	20,322,624
Volatility	89%
Risk-free rate	1.88%
Conversion price	CDN$0.45
Forced conversion price	CDN$1.50
Term to maturity	4.68 years

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

	December 31, 2018	**December 31, 2019**
Preferred Shares	$ 2,504,044	**$ 3,145,235**
Derivative Liability	$ 2,901,787	**$ 3,229,201**
Total	$ 5,405,831	**$ 6,374,436**

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):

	Year ended December 31, 2018	**Year ended December 31, 2019**
Dividend Cash Interest Expense	$ 111,889	**$ 344,644**
Preferred Share Accretion Interest Expense	$ 130,262	**$ 497,801**
Total interest expense in period	$ 242,151	**$ 842,445**
(Gain) / Loss on revaluation of derivative liabilities	$ (1,248,281)	**$ 168,020**

(Expressed in U.S. Dollars, unless otherwise noted)

15. WARRANTS

On February 10, 2017, the Company completed a private placement of equity units consisting of one common share and one-half of one common share warrant (the "Subscribers' Warrants"). The Company issued 11,035,583 Subscriber's Warrants with each warrant entitling the holder to acquire one common share at an exercise price of CDN$1.00 for a period of 24 months. The Subscriber Warrants were valued at fair market value using the Black-Sholes pricing model at a value of US$2,965,366 and accounted for on the balance sheet as a derivative liability. The Subscriber Warrants are revalued every period with the change being recorded as income or expense. The mark to market adjustment for the Subscriber Warrants for the twelve months ended December 31, 2019 was $155 (twelve months ended December 31, 2018 - $1,371,967). The Subscriber Warrants expired on February 10, 2019.

The Company also issued 1,326,286 finder's warrants (the "Finders' Warrants") to an arm's length finder as part of the private placement. Each Finders' Warrants is non-transferable 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. The Finders' Warrants were valued at fair market value using the Black-Scholes pricing model at a value of US$356,386. The Finders' Warrants expired on February 10, 2019.

On February 10, 2017, the Company issued 35,200 finder's warrants to arm's length finders as part of a debenture financing. Each Finder's 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$7,426. The Finders' Warrants expired on February 10, 2019.

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. The Finders' Warrants expired on October 30, 2019.

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:

	December 31, 2019		December 31, 2018	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
		(CDN$)		(CDN$)
Warrants outstanding, beginning of period	13,090,448	0.97	12,485,869	1.00
Issued	-	-	604,579	0.45
Exercised	-	-	-	-
Expired	(12,485,869)	1.00	-	-
Warrants outstanding & exercisable, end of period	**604,579**	**0.45**	13,090,448	0.97

The following table summarizes information about the Company's warrants outstanding at December 31, 2019:

	Warrants Outstanding		**Warrants Exercisable**	
Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Term (Years)**	**Number Exercisable**	**Weighted Average Remaining Term (Years)**
CDN$0.45	604,579	0.68	604,579	0.68
	604,579	**0.68**	**604,579**	**0.68**

(Expressed in U.S. Dollars, unless otherwise noted)

15. WARRANTS (cont'd)

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

	Warrants Outstanding		Warrants Exercisable	
Exercise Prices	**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
	13,090,448	**0.18**	**13,090,448**	**0.18**

16. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

	Number of Common Shares	Amount
Outstanding, January 1, 2018	**37,914,636**	**$ 50,944,234**
Issuance of share on exercise of DSU	24,000	-
Outstanding, December 31, 2018	**37,938,636**	**$ 50,944,234**
Shares issued as settlement on the purchase of Apteryx	846,460	450,000
Settlement of share capital upon expiry of unexercised warrants	-	381,374
Outstanding, December 31, 2019	**38,785,096**	**$ 51,775,608**

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

17. 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$)**
Outstanding, January 1, 2018	**3,237,002**	**$ 1.12**
Options granted	660,000	0.42
Options forfeited	(434,352)	0.85
Options expired	(19,000)	3.08
Outstanding, December 31, 2018	**3,443,650**	**$ 0.96**
Options granted	460,000	$ 0.38
Options forfeited	(236,219)	$ 1.12
Options expired	(80,000)	$ 1.30
Outstanding, December 31, 2019	**3,587,431**	**$ 0.87**

(Expressed in U.S. Dollars, unless otherwise noted)

17. STOCK-BASED PAYMENTS (cont'd)

On August 28, 2019, the Company granted a total of 460,000 stock options exercisable at CDN $0.38 per share in accordance with its stock option plan to director, officers, consultants and employees. The options are for a term of 5 years and one third vesting immediately, one third vesting at year one grant date and one third vesting at year two grant date.

The options outstanding at December 31, 2019 have an exercise price in the range of CDN$0.38 to $4.90 (December 31, 2018 – CDN$0.42 to $4.90) and a weighted average contractual life of 2.82 years (December 31, 2018 – 3.47 years). The amount of options exercisable at the end of December 31, 2019 was 2,300,781 (December 31, 2018 – 1,490,802). The weighted average exercise price of the options exercisable as at December 31, 2019 was $0.98.

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
August 28, 2019	$0.38	$0.38	Nil	83.83%	1.39%	5 years

For the year ended December 31, 2019, the Company recognized $199,870 of stock-based compensation expense (for the year ended December 31, 2018 – $339,862. Forfeiture rate is estimated based upon prior year forfeitures as a percentage of the total amount of options issued.

18. DEFERRED SHARE UNITS

The Company has a Deferred Share Units (DSU) Plan for the company's directors, executive officers and service providers ("eligible persons").

DSU activity is presented below:

	Number of DSUs	Weighted Average Exercised Price
Outstanding, January 1, 2018	**36,000**	**2.50**
Granted	-	-
Exercised	(24,000)	-
Outstanding, December 31, 2018	**12,000**	**2.50**
Granted	-	-
Exercised	-	-
Outstanding, December 31, 2019	**12,000**	**2.50**

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

(Expressed in U.S. Dollars, unless otherwise noted)

19. 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 revenues. The Company operates two commercial segments related to the development and commercialization of dental devices & related software. All of the Company's assets are retained in the North American segment.

The Company earned revenues attributed to the following geographical regions based on the location of the customer:

	Year ended December 31, 2019	**%**	Year ended December 31, 2018	%
U.S.	**$ 14,802,023**	**95%**	$ 13,748,008	97%
Canada	**486,077**	**3%**	399,292	3%
Rest of the World	**256,056**	**2%**	68,512	-
Total	**$ 15,544,156**	**100%**	$ 14,215,812	100%

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, Tuxedo intraoral sensor and intraoral camera, along with related consumable products and support services. The Software operating segment includes Apteryx's digital imaging software product line and customer support services.

Revenue for each operating segment for the years ended December 31, 2019 and December 31, 2018 is summarized as follows

	Year ended December 31, 2019	Year ended December 31, 2018
Hardware	**$ 9,152,451**	$ 9,158,190
Software & Services	**$ 6,391,705**	$ 5,057,622
Total	**$ 15,544,156**	$ 14,215,812

The Company had no customers that represent 10% or more of the total revenue for the year ended December 31, 2019 or 2018.

20. 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 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.

(Expressed in U.S. Dollars, unless otherwise noted)

20. CAPITAL DISCLOSURES (cont'd)

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

	December 31, 2019	December 31, 2018
Shareholder's equity	$ 3,597,250	$ 4,087,407
Debentures	-	2,558,248
Preferred shares	3,145,235	2,504,044
Derivative preferred share liability	3,229,201	2,901,787
	$ 9,971,686	$ 12,051,486
Less: Cash and cash equivalents	(1,849,533)	(2,827,882)
	$ 8,122,153	$ 9,223,604

21. INCOME TAXES

a) Income tax expense (recovery)

	December 31, 2019	December 31, 2018
Current tax expense (recovery)		
Current period	**-**	-
Prior period adjustments	**-**	-
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	**$ (740,836)**	$ 600,464
Tax rate changes and tax rate differences	**(252,367)**	413,707
Change in unrecognized deductible temporary differences	**1,076,609**	(1,098,159)
Prior period adjustment	**(83,406)**	83,988
Total income tax expense (recovery)	**-**	-

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rate to income before tax. These differences result from the following:

	December 31, 2019	December 31, 2018
Income (loss) before income taxes	**$ (1,151,055)**	$ 816,450
Statutory income tax rate	**27.00%**	27.00%
Expected income tax	**(310,785)**	220,442
Increase (decrease) resulting from:		
Non-taxable items	**58,754**	96,625
Change in unrecognized deductible temporary differences	**1,076,609**	(1,098,159)
Foreign currency translation	**(491,363)**	283,398
Other	**2,558**	-
Tax rate changes and tax rate differences	**(252,367)**	413,707
Prior period tax adjustments	**(83,406)**	83,988
Income tax expense (recovery)	**$ -**	$ -

(Expressed in U.S. Dollars, unless otherwise noted)

21. INCOME TAXES (cont'd)

b) Recognized deferred tax assets and liabilities

	December 31, 2019	December 31, 2018
Deferred tax assets are attributable to the following:		
Loss carryforwards	**$ 1,074,272**	$ 1,150,472
Deferred tax assets	**1,074,272**	1,150,472
Set-off tax	**(1,074,272)**	(1,150,472)
Net deferred tax asset	**-**	-
Deferred tax liabilities are attributable to the following:		
Intangibles and goodwill	**$ -**	$ -
Property, plant and equipment	**(10,397)**	(7,743)
Debentures	**-**	(31,675)
Preferred shares	**(1,027,923)**	(1,111,054)
Deferred tax liabilities	**(1,074,272)**	(1,150,472)
Set-off of tax	**1,074,272**	1,150,472
Net deferred tax liabilities	**-**	-

c) Unrecognized deferred tax assets

The loss carryforwards expire between 2026 and 2039. Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profit will be available against which the Company and its subsidiaries can utilize the benefits.

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2019	December 31, 2018
Deductible temporary differences	**$ 5,405,095**	$ 2,330,218
Tax losses	**34,840,784**	33,145,813
	40,245,879	35,476,031

(Expressed in U.S. Dollars, unless otherwise noted)

22. 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:

	December 31, 2019	December 31, 2018
Amortized cost:		
Cash and cash equivalents	$ 1,849,533	$ 2,827,882
Trade and other receivables	2,091,356	2,531,208
	$ 3,940,889	$ 5,359,090

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

	December 31, 2019	December 31, 2018
FVPTL:		
Warrants	$ -	$ 155
Derivative preferred share liability	3,229,201	2,901,787
	$ 3,229,201	$ 2,901,942

	December 31, 2019	December 31, 2018
Other financial liabilities:		
Trades payable and accrued liabilities	$ 1,889,658	$ 1,576,953
Debentures	-	2,558,248
Preferred shares	3,145,235	2,504,044
Lease liability	161,837	-
Deferred consideration on acquisition	-	450,000
	$ 5,196,730	$ 7,089,245

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 December 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.

(Expressed in U.S. Dollars, unless otherwise noted)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value at December 31, 2019
Derivative preferred share liability	-	-	$ 3,229,201	$ 3,229,201
Total	**-**	**-**	**$ 3,229,201**	**$ 3,229,201**

	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
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.

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 or service.

The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due with trade receivables with an invoice date more than 365 days considered to be doubtful. At December 31, 2019, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

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

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 1,849,533	$ 2,827,882
Trade and other receivables	2,091,356	2,531,208
	$ 3,940,889	$ 5,359,090

Trade and other receivables balances of $2,091,356 as at December 31, 2019 (December 31, 2018 - $2,443,399) were aged as follows in the below table. It does not include goods and services tax receivable of $18,321 as at December 31, 2019 (December 31, 2018 – $87,810).

	December 31, 2019	December 31, 2018
Current	$ 1,371,479	$ 1,583,849
31-60 days	327,885	313,987
Over 60 days	391,992	545,563
	$ 2,091,356	$ 2,443,399

(Expressed in U.S. Dollars, unless otherwise noted)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

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 as at December 31, 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 December 31, 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:

	December 31, 2019	December 31, 2018
Current	$ 846,346	$ 946,334
31-60 days	1,418	6,389
Over 60 days	9,873	51,411
	$ 857,637	$ 1,004,134

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

	Within One Year	**Between One and Five years**
Trade payables and accrued liabilities	$ 1,889,658	$ -
Deferred revenue	1,086,950	-
Lease Liability	78,900	82,937
Preferred Shares	352,767	2,792,468
	$ 3,408,275	**$ 2,875,405**

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	-
Debentures	2,558,248	-
Preferred Shares	335,127	2,168,917
Deferred consideration on acquisition	450,000	-
	$ 5,820,029	**$ 2,168,917**

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.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

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 and preferred shares that pay interest. There is no interest rate risk associated with the debentures and preferred shares 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 December 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:

	December 31, 2019 CDN$	December 31, 2018 CDN$
Cash and cash equivalents	$ 380,289	$ 2,410,898
Trade and other receivables	38,955	44,054
Trade payable and accrued liabilities	(200,311)	(12,638)
Net statement of financial position exposure	**$ 218,933**	$ 2,442,314

23. NET INCOME (LOSS) PER SHARE

The reconciliation of basic and diluted net income (loss) per share for the years ended December 31, 2019 and 2018 was as follows:

	December 31, 2019	December 31, 2018
Net income (loss) for the year attributable to shareholders	($1,151,055)	$ 816,450
Weighted average number of shares outstanding (basic)	38,687,695	37,915,820
Net income (loss) per share (basic)	($0.03)	$ 0.02
Net income (loss) for the year attributable to shareholders (diluted)	($1,151,055)	$ (189,680)
Net income (loss) per share (diluted)	($0.03)	$ 0.00
Weighted average number of shares outstanding (diluted)	38,687,695	44,875,873

The diluted number of shares for the year ended December 31, 2018 is impacted by preferred shares exercisable at December 31, 2018.

The calculation of diluted net income (loss) per share for the year ended December 31, 2019 does not assume the exercise of any financial instruments, including the preferred shares, that would have an anti-dilutive effect on net income (loss) per share.

(Expressed in U.S. Dollars, unless otherwise noted)

24. 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 year ended December 31, 2019 and 2018 are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Short-term compensation	**$ 636,071**	$ 562,081
Stock-based payments	**114,428**	$ 214,220
Total	**$ 750,499**	$ 776,301

During the year ended December 31, 2019, there was a change in the board of directors and corporate management team which increased the short-term compensation in comparison to the corresponding 2018 periods.

During 2019, the Company entered into a marketing consulting arrangement with a third-party company controlled by one of the Company's directors. Payments made under this consulting agreement since the time the director joined the Company have been included in the related parties' short-term compensation for the year ended December 31, 2019.

25. EMPLOYEE COMPENSATION AND DEPRECIATION AND AMORTIZATION

For the year ended December 31, 2019, the Company has incurred $5,938,724 of employee benefits (year ended December 31, 2018 - $5,737,817) and depreciation and amortization of $941,415 (year ended December 31, 2018 - $903,384). Employee compensation include wages, commissions, bonuses, payroll taxes and employee benefits.

26. SUBSEQUENT EVENTS

On January 20, 2020, there was a conversion of 3,350,000 preferred shares to common shares at an exercise price of CDN$0.45, as per the terms of the preferred share agreement. On January 27, 2020 there was a further conversion of 335,000 preferred shares to common shares at a price of CDN$0.45. The remaining balance of preferred shares following these conversions is 16,637,624.

On March 1, 2020, the Company entered into two new lease agreements relating to its operating premises in Vancouver, B.C. and Akron, Ohio. The Vancouver lease is for a 3-year term, through to February 28, 2023. The Akron lease is tied to the Company existing operating premises in Akron, with a lease expiry on December 31, 2021. The Company has operating leases with respect to its premises in Vancouver, British Columbia, Canada; Akron, Ohio, United States; and Atlanta, Georgia, United States. The aggregate of minimum lease payments as at December 31, 2019, inclusive of these new leases is as follows:

2020		215,232
2021		160,834
2022		54,879
2023		9,203
Total future minimum lease payments	**$**	**440,148**

On March 18, 2020, the Company issued 166,012 common shares at a price of CDN$0.40 per share, equivalent to USD$50,000 of value. This share issuance is in relation to the Company's partnership with 4th IR AG, for the development of cloud-based AI solutions to be integrated with the Company's existing software portfolio.

26. SUBSEQUENT EVENTS (cont'd)

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada and the United States, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.