APTERYX IMAGING INC.

(FORMERLY LED MEDICAL DIAGNOSTICS INC.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS AND TWELVE MONTHS ENDED DECEMBER 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of April 28, 2020 and should be read in conjunction with the audited consolidated financial statements and related notes of Apteryx Imaging Inc. (the "Company"), formerly LED Medical Diagnostics Inc., as at and for the three and twelve months ended December 31, 2019 (prepared in accordance with International Financial Reporting Standards or "IFRS"). All amounts are presented in United States (U.S) dollars unless otherwise noted. Additional information about the Company, including the Company's Annual Information Form ("AIF"), are available on SEDAR at www.sedar.com.

DISCLAIMER FOR FORWARD-LOOKING STATEMENTS

The following Management's Discussion and Analysis contains statements, which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation. Such forward-looking statements or information includes financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions and the Company's intention to expand its technology beyond dental applications including "costs of production", "capital expenditures", "costs and timing of the development of new products", "hedging practices", "currency exchange rate fluctuations", "requirements for additional capital", "government regulation of medical device operations" and "insurance coverage". Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "would", "could", "might" or "will be taken", "occur" or "be achieved" or the negative connotation thereof. Persons reading this Management's Discussion and Analysis are cautioned that such statements or information are only predictions, and that the Company's actual future results or performance may be materially different. Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: history of losses; operational risk; debt repayment risk; distributor risks; disruptions in production; seasonality; working capital requirements; seasonality; new diseases and epidemics (such as COVID 19); management's estimates; regulatory requirements; reliance on few suppliers; dependence on limited third party product vendors; reliance on subcontractors; failure to realize benefits currently anticipated; operating cost fluctuations; fluctuations in exchange rates; taxation; economic conditions; additional financing risk; research and development risk; stock price volatility; product development and technological change risk; sales and marketing and strategic alliances risk; dependence on small number of customers; the Company not adequately protecting its intellectual property; competition risk; fluctuations in quarterly results; dependence upon key personnel and hiring; acquisition risk; risks related to product defects and product liability; future share sale risk; management of growth risk and including, but not limited to, other factors described in the Company's reports filed on SEDAR, including its financial statements and management's discussion and analysis for the year ended December 31, 2019. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect the Company's forward-looking information. These and other factors should be considered carefully, and readers should not place undue reliance on such forward-looking information. All forward-looking statements made in this Annual Information Form are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

The Company was incorporated under the BCBCA on July 17, 2002 as 651192 B.C. Ltd. The Company changed its name to LED Medical Diagnostics Inc. on November 6, 2003 and to Apteryx Imaging Inc on September 3, 2019. The Company's head office is located at 580 Hornby Street, Unit 780, Vancouver, B.C. V6C 3B6. The Company's registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3. The Company is listed on the TSX Venture Exchange (TSX-V) under the trading symbol XRAY.

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

General Development of the Business

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

Description of the Business

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

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

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

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

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

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

The core of the digital imaging device product line is the proprietary TUXEDO intraoral digital sensor used for acquiring low dose intra-oral radiographs. The Tuxedo sensor is optimized for use with Apteryx software products and services.

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

Products and Intellectual Property

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

FORWARD-LOOKING COMPANY OBJECTIVES

Apteryx improved financial performance in 2019, which included significant improvement in gross margin, EBITDA and revenue quality was attributed to growth in software and service revenues, particularly the growth in recurring revenues from subscription sales and in addition, sales focus on the Company's own proprietary devices including the VELscope® oral screening device, Tuxedo intra-oral radiographic sensor, related consumables and our suite of software solutions and services and the exit from the sales of third party imaging devices at lower gross margin.

During 2019 the Company grew the number of unique customer sites running XVWeb® by 127% to 1,777 sites at year-end and increased monthly recurring revenue (MMR) from $92k to $234k, representing an annual MMR growth rate of 154% with low churn date of 2.2% for 2019 and a Churn rate of 2.7% since the launch of XVWeb.

XVWeb SaaS	Dec 31. FY18	Dec 31, FY19	% Growth
Unique Customer Sites	781	1777	127%
Monthly Recurring Revenue (MRR)	$92k	$234k	154%

In addition to growth in our SaaS offering, growth in the number of maintenance and support subscriptions contributed to overall recurring revenue growth. When LED Medical Diagnostics acquired Apteryx Inc. in February 2017, there were virtually no recurring revenues to speak of. Today approximately 46% of the Companies software revenues are now recurring in nature. The increase in quantity and quality of our revenue has created free cash flow allowing us to retire all outstanding debenture debt in October 2019.

The Company's main objectives for the balance of 2020 are to continue to improve EBITDA[1] and free cash flow while strengthening the Company's financial position by:

- Continued investment in recurring and repeatable revenue growth from XVWeb SaaS, and related subscription and support services, via traditional sales/marketing activities and strategic partnering opportunities
- Targeted customer acquisition campaigns in the Dental Support Organization (DSO) and government market segments
- Continue the development of cloud-based AI solutions to partner with the Company's existing suite of software products

Corporate Highlights

- On January 18, 2019, the Corporation announced the appointment of a new Director, Mr. Alexander Ryzhikov. Mr. Ryzhikov holds a Chartered Financial Analyst designation and is a Partner at Ewing Morris & Co.
- On February 10, 2019, the Corporation repaid senior secured debentures with a principal amount of CDN$1,150,000 plus any accrued interest owed to this date. There are no further remaining obligations in relation to the February 10, 2017 debentures.
- A final deferred payment of US$450,000 relating to the acquisition of Apteryx Inc, was payable in shares or cash at the Corporation's option, due 24 months from the date of closing of the Apteryx Inc. acquisition; being February 10, 2019. The Corporation elected to pay the full amount in common shares of the capital of the Corporation and on February 10, 2019 issued 846,460 common shares of the Corporation to the seller at a deemed price of CDN$0.70, representing US$450,000 of value, in accordance with the terms of the acquisition agreement. This final payment completed all remaining deferred payments and outstanding obligations with the seller, relating to the February 10, 2017 acquisition of Apteryx Inc.

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

- On February 10, 2019, a total of 11,035,583 Subscriber's Warrants and 1,361,486 Finder's warrants reached their 24-month expiry date. The Subscriber Warrants were revalued at fair market value at each period and accounted for on the balance sheet as a derivative liability with changes in the value being recorded as income or expense for each period. At February 10, 2019, the Corporation elected not to renew or extend the outstanding warrants and therefore these Subscriber and Finder's Warrants have been fully extinguished at this date, with any remaining net value recorded as an expense for the period. The Corporation also has 604,579 Finder's Warrants remaining which are due to expire September 3, 2020.

- June 29, 2019, the Corporation announced that its XVWeb Cloud Imaging Software, developed by its subsidiary Apteryx Inc has received the 2019 Cellerant "Best of Class" Technology Award for the Imaging Software category.

- On June 20, 2019, the Corporation announced the appointment of two new Directors, Mr. George Reznik and Dr. Lou Shuman at the Corporation's Annual General Meeting. Mr. Reznik will also be serving as Chair of the Audit Committee as Mr. James Topham did not stand for reappointment as a director. Mr. Reznik holds the designations of CPA, CA, CBV and CFE and has more than twenty-five years of experience in executive finance and operations roles. Dr. Shuman is a graduate of the Boston University School of Dental Medicine. He is a recognized key opinion leader in the fields of dental technology and digital marketing.

- On August 28, 2019, the Corporation announced that it is changing its corporate name to Apteryx Imaging Inc. effective September 3, 2019.

- On September 3, 2019, the Corporation announced new stock tickers for the TSX Venture Exchange to XRAY and for the OTCQB markets to APTEF.

- On September 18, 2019, the Corporation announced a partnership with 4th IR AG, a Lucerne based company to develop a suite of cloud-based AI solutions. By integrating machine and deep learning technology into the Company's software portfolio, coupled with plans to build a stand-alone service, dentists will soon have access to a suite of new products and features, including radiographic quality assurance, diagnostic decision-support and enhanced specialist reporting.

- On September 26, 2019, the Corporation announced the update of their stock ticker symbol on the Frankfurt Stock exchange Open Market to XRAY.

- On October 30, 2019, the Corporation repaid senior secured debentures with a principal amount of $2,500,000 plus any accrued interest owed to this date. There are no further remaining obligations in relation to the October 30, 2017 debentures.

- On December 4, 2019, the Corporation announced that Apteryx Inc, a wholly owned subsidiary, has been awarded a five-year contract with the Department of Defense, effective through 11/26/2024. This contract award provides Apteryx the ability to serve as a preferred supplier of dental imaging products, software and services to the United States Army, Navy, Air Force and Marine Corp. This award is a maximum $20,900,000, with no minimum, fixed-price with economic-price-adjustment, indefinite-delivery/indefinite-quantity contract for hospital equipment and accessories for the Defense Logistics Agency electronic catalog.

Financial Highlights

- Revenue for the twelve months ended December 31, 2019 was $15,544,156, an increase of 9% from the twelve months ended December 31, 2018. The increase over the prior year period is primarily due to growth in the Company's recurring and repeatable revenue streams.
- Gross Margin[2] for the twelve months ended December 31, 2019 was $10,451,120 or 67%, compared to the twelve months ended December 31, 2018 of $8,719,973 or 61%. The increase in gross margin[2] percentage is due to a

[2] *Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenue less cost of sales. Cost of sales is the direct costs attributable to the production of*

favorable change in product mix with a growth in sales of the Company's higher margin proprietary software, warranty and support products, and less reliance on distributed third-party products.

- Operating Expenses (excluding stock-based compensation and depreciation and amortization) increased compared to the twelve months ended December 31, 2018 with sales, marketing and customer support expenses. The Company's marketing expenses included rebranding initiatives with the Company name change.
- Net loss for the twelve months ended December 31, 2019 was $(1,151,055) compared to a net income of $816,450 for the twelve months ended December 31, 2018. Net loss was impacted by non-operating expenses including changes in the fair value of derivative liability, foreign exchange and interest expense.
- Cash flow provided by (used in) operations was $2,114,187 for the twelve months ended December 31, 2019 compared to $(1,799,295) for the twelve months ended December 31, 2018. The net cash used in financing activities was $(3,020,228) for the twelve months December 31, 2019 compared to the twelve months ended December 31, 2018 of $2,000,875 relating to the Company's debenture obligation repayment in 2019.
- The Company had cash of $1,849,533 and Net Working Capital of $1,669,735 as at December 31, 2019. The Company had cash of $2,827,882 and Net Working Capital of $776,681 as of December 31, 2018. Net Working Capital is defined as total current assets less total current liabilities.
- The Company grew the number of unique customer sites running its XVWeb® SaaS product by 127% to 1,777 sites at year-end and grew monthly recurring revenue from $91,863 to $236,618 in the period ending Dec. 31, 2019 representing an annual growth rate of 157%.

SELECTED QUARTERLY INFORMATION

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

(in US$ '000's)	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Cash	$1,850	$2,468	$2,778	$2,540	$2,828	$3,413	$1,174	$ 1,433
Working Capital	2,023	1,521	1,763	1,490	777	2,576	(2,566)	(2,791)
Total Assets	13,724	14,816	15,745	14,901	15,444	15,815	13,655	14,332
Total Liabilities	10,127	11,434	11,955	10,896	11,356	8,077	10,182	11,350
Shareholders' Equity	3,597	3,382	3,791	4,005	4,087	3,483	3,473	2,982

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

the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.

Consolidated Statement of Operations:

(in US$ '000's, except earnings per share)	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenues	$4,631	$3,166	$3,933	$3,814	$3,812	$3,401	$3,671	$ 3,332
Cost of goods sold	1,544	1,060	1,257	1,232	1,730	1,081	1,507	1,178
Gross margin[3]	3,087	2,106	2,676	2,582	2,082	2,320	2,164	2,154
Expenses:								
Sales, marketing and support	1,475	1,308	1,192	1,283	1,185	1,148	1,293	1,309
Research and development	324	353	406	316	292	300	270	300
Administration	622	495	563	431	1,019	486	501	518
Operating Income (loss)	357	(313)	248	249	(414)	386	100	27
Other expenses (income)	215	122	491	864	(952)	562	(278)	(48)
Income tax expense	-	-	-	-	-	-	-	-
Net profit (loss)	142	(436)	(242)	(615)	538	(176)	378	75
Net income (loss) per share (basic)	0.00	(0.01)	(0.01)	(0.02)	0.01	(0.00)	0.01	0.00

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

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2019

The following analysis of the results of operations for the three months ended December 31, 2019 includes comparisons to the three months ended September 30, 2019 and December 31, 2018.

Revenue

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

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Total revenue	**$ 4,630,513**	$ 3,166,093	$ 3,811,629

Revenue increased 21% when compared to the three months ended December 31, 2018 and increased by 46% from the three months ended September 30, 2019. The increase over the prior comparable periods is primarily due to the shift from selling distributed 3rd party products to the Company's proprietary products; along with a change in software product mix from perpetual license sales to growing XVWeb SaaS recurring revenue.

During the three months ended December 31, 2019, the Company had no customers that represent 10% or more of total revenue. During the three months ended September 30, 2019 and the three months ended December 31, 2018, revenue from customers which amounted to 10% or more of the Company's revenue was also nil.

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

The Company generates a majority of its revenue from the North American market and is exploring expansion into other geographical regions.

Gross Margin[4]

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

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Revenue	**$ 4,630,513**	$ 3,166,093	$ 3,811,629
Cost of sales	**1,543,546**	1,060,465	1,730,306
Gross margin[4]	**$ 3,086,967**	$ 2,105,628	$ 2,081,323
Percentage of revenue	**67%**	67%	55%

Gross margin[4] for the three months ended December 31, 2019 was 67% compared to 55% for the three months ended December 31, 2018. The gross margin[4] remains consistent with the prior three-month period ending September 30, 2019.

Expenses

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Sales, marketing and support	**$ 1,474,821**	$ 1,307,535	$ 1,184,836
Research and development	**323,913**	353,182	292,142
Administration	**622,242**	494,713	1,018,943
Other operating expenses	**309,202**	263,749	286,087
Total expenses	**$2,730,178**	$ 2,419,179	$ 2,782,008
As a percentage of revenue	**59%**	76%	73%

Expenses for the three months ended December 31, 2019 increased 12% compared to the expenses for the three months ended September 30, 2019 due to increased sales, marketing and customer support expenses and administration expenses. Compared to the expenses for the three months ended December 31, 2018, the expenses decreased by 2%.

Sales, Marketing and Support

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Sales, Marketing & Support Expenses	**$1,474,821**	$ 1,307,535	$ 1,184,836
As a percentage of revenue	**32%**	41%	31%

Sales, marketing and support expenses consists of salaries and related personnel costs, sales commissions, consulting fees, advertising and trade show costs. The increase in sales, marketing and support expenses for the three months ended December 31, 2019 compared to the three months ended September 30, 2019 and December 31, 2018 was due to an increase in sales personnel commission expenses along with additional marketing expenses.

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

Research and Development

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Research and Development Expenses	**$323,913**	$ 353,182	$ 292,142
As a percentage of revenue	**7%**	11%	8%

Research and development expense relates primarily to salaries and related benefit costs, costs related to development of Apteryx software technology and the Company's hardware products, along with costs involved with obtaining and maintaining regulatory approvals. The Company is currently focused on enhancing and developing new imaging devices and software products, including additional XVWeb® modules and other software related enhancements.

Administration

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Administration Expenses	**$ 622,242**	$ 494,713	$ 1,018,943
As a percentage of revenue	**13%**	16%	27%

Administration expenses include executive and administrative staff, facilities, investor relations, insurance, audit, tax and legal fees as well as various general administrative costs. Administration expenses were higher for the three months ended December 31, 2019 compared to the three months ended September 30, 2019 due to increased credit card fees and an annual board of director fee payment. Administration expenses were lower in the three-month period ended December 31, 2019 compared to the three-month period ended December 31, 2018 due to a one-time expense of $172,450 relating to the exit of a long-term property lease and $355,693 of transaction costs recognized relating to the preferred share private placement.

Other Operating Expenses

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Stock-based compensation	**$ 73,055**	$ 27,856	$ 65,899
Depreciation & amortization	**236,147**	235,893	220,188
Total other operating expenses	**$ 309,202**	$ 263,749	$ 286,087
Percentage of revenue	**7%**	8%	8%

Other Operating Expenses remain consistent between the three months ended December 31, 2019 and the three months ended September 30, 2019 and the three months ended December 31, 2018 as a percentage of revenue. Other Operating Expenses increased from the three months ended December 31, 2019 compared to the three months ended September 30, 2019 due to an adjustment in stock-based compensation expense.

EBITDA[5]

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Net income (loss)	**$ 141,712**	$ (436,293)	$ 538,132
Add back: Other expenses (earnings)	**524,279**	386,491	(952,731)
EBITDA[5]	**$ 665,991**	$ (49,802)	$ (414,598)

EBITDA[5] was 665,991 for the three months ended December 31, 2019 compared to $(49,802) for the three months ended September 30, 2019 and $(414,598) for the three months ended December 31, 2018.

Other Expenses (Earnings)

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Change in fair value of Canadian dollar denominated warrants	**$ -**	$ -	$ (167,542)
Change in fair value of derivative liabilities	**(213,503)**	(93,260)	(1,248,281)
Foreign exchange (gain) loss	**131,922**	(79,755)	(225,859)
Interest expense	**287,546**	295,757	60,673
Other non-operating expenses	**9,111**	-	341,923
Total other expenses (earnings)	**$ 215,076**	$ 122,742	$ (1,238,817)

For the three months ended December 31, 2019 other expenses increased in comparison to the three months ended September 30, 2019 due to a foreign exchange loss. During the three months ended December 31, 2018 other operating earnings were impacted by a change in fair value of the Canadian dollar denominated warrants. These Canadian dollar warrants expired in February 2019.

Net Income (Loss)

	Three months ended:		
	December 31, 2019	September 30, 2019	December 31, 2018
Operating income (loss)	**$ 356,788**	$ (313,551)	$ (700,685)
Total other Expenses (earnings)	**215,076**	122,742	(1,238,817)
Income tax expense	**-**	-	-
Net income/ (loss) for the period	**$ 141,712**	$ (436,293)	$ 538,132
Earnings/ (Loss) per share	**$ 0.00**	$ (0.01)	$ 0.01

Net Income for the three months ended December 31, 2019 was $141,712 or $0.00 earnings per share compared to net loss of $(436,293) for the three months ended September 30, 2019 or $(0.01) earnings per share. Other non-operating expenses including changes in the fair value to derivative liability, foreign exchange losses and interest impacting the net income figure for the period.

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

FINANCIAL RESULTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2019

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

SELECTED ANNUAL INFORMATION

	Year ended December 31, 2019	Year ended December 31, 2018
Revenue	**$15,544,156**	**$ 14,215,812**
Operating income (loss)	**541,152**	**(1,144,099)**
Net (loss) income and comprehensive (loss) income for the year	**(1,151,055)**	**816,450**
Loss per common share (basic and diluted)	**(0.03)**	**0.02**
Distributions/cash dividends declared	**$ 457,259**	**$ 147,399**
As at	**December 31, 2019**	**December 31, 2018**
Total assets	**13,724,357**	**15,443,766**
Total non-current financial liabilities	**6,104,606**	**5,070,859**

See Financial Results section below for discussion on Revenue and Net Income (Loss) for the year. The net loss for the year ended December 31, 2019 was due to other non-operating expenses such as foreign exchange loss, change in fair value of derivative liabilities and interest accretion for the preferred share liability.

Revenue

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

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Total revenue	**$ 15,544,156**	$ 14,215,812

For the twelve months ended December 31, 2019 the Company experienced a 9% increase in revenue compared to the twelve months ended December 31, 2018, due to increased sales of Apteryx software and imaging sensor products.

Gross Margin[6]

The Company experienced the following gross margin[6] for the periods outlined:

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Revenue	$15,544,156	$ 14,215,812
Cost of sales	5,093,036	5,495,839
Gross margin[6]	**10,451,120**	8,719,973
Percentage of revenue	**67%**	61%

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

The increase in gross margin[6] for the twelve months ended December 31, 2019 compared to the twelve months ended December 31, 2018 is due to a more favorable mix of high margin Apteryx digital software products and imaging sensors compared to lower margin third party distributed imaging device products sold in 2018. During 2018, the Company exited the distribution of these third-party imaging device products to focus on its proprietary developed software and hardware product range. The Company received a volume rebate of $393,250 from a vendor manufacturer during the second half of 2019 relating to the achievement of a volume purchase threshold of imaging sensors since October 1, 2018. This rebate was applied retroactively to cost of sales for 2019.

Expenses

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Sales, marketing and support	$ 5,257,989	$ 4,935,183
Research and development	1,399,242	1,162,872
Administration	2,111,451	2,522,741
Other operating expenses	1,141,285	1,243,276
Total expenses	**$ 9,909,967**	$ 9,864,072
As a percentage of revenue	**64%**	69%

Expenses for the twelve months ended December 31, 2019 remained consisted to the twelve months ended December 31, 2018. For the twelve months ended December 31, 2019, the expenses were 64% of revenue which is a decrease from the twelve months ended December 31, 2018 at 69% of revenue.

Sales, Marketing and support

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Sales, Marketing and Support Expenses	**$ 5,257,989**	$ 4,935,183
Percentage of revenue	**34%**	35%

Sales, marketing and support expenses include staff salaries, advertising, trade show costs & customer support activities. The slight increase in sales, marketing and support expenses for the twelve months ended December 31, 2019 over the twelve months ended December 31, 2018 was due to an increase in customer support activities and marketing initiatives with the company rebranding. Relative to revenue, this expense category has decreased over the comparative 2018 period.

Research and Development

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Research and Development Expenses	**$ 1,399,242**	$ 1,162,872
Percentage of revenue	**9%**	8%

Research and development expenses is primarily salaries and benefit costs, along with costs related to general research and development of new products including software products and obtaining or maintaining regulatory approvals. The Company is currently focused on the ongoing development of the Apteryx software product line and AI software services. The increase in research and development expenditure for the twelve months ended December 31, 2019 compared to the twelve months ended December 31, 2018 was due to the development of additional software products.

Administration

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Administration Expenses	**$2,111,451**	$ 2,522,741
Percentage of revenue	**14%**	18%

Administration expenses include executive and administrative staff salaries, facilities, investor relations, insurance, accounting and legal fees as well as various general administrative costs. Relative to revenue, this expense category remains consistent with the prior twelve-month period ending December 31, 2018. In the twelve-month period ending December 31, 2019, administration expenses decreased due to a reduction in professional fees. In 2018, the company had a one-time lease exit expense of $172,450.

Other Operating Expenses

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Stock-based compensation	$ 199,870	$ 339,892
Depreciation and amortization	941,415	903,384
Total other operating expenses	**$ 1,141,285**	**$ 1,243,276**

During the twelve months ended December 31, 2019, other operating expenses decreased from the twelve months ended December 31, 2018 due to a reduction in stock-based compensation as option grants were reduced in 2019.

EBITDA[7]

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Net income (loss)	$ 541,153	$ (1,144,100)
Add back: Other expenses	1,141,285	1,243,276
EBITDA[7]	**$ 1,682,438**	$ 99,177

EBITDA[7] was $1,682,438 for the twelve months ended December 31, 2019 compared to $99,177 for the twelve months ended December 31, 2018. The increased EBITDA[7] reflects the company's focus on its core product line and growth in its subscription-based software and support products.

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

Other Expenses (Earnings)

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Change in fair value of Canadian dollar denominated warrants	$ (155)	$ (1,371,967)
Change in fair value of derivative liabilities	168,020	(1,248,281)
Foreign exchange loss (gain)	342,648	(463,411)
Interest expense (income)	1,175,395	1,062,437
Other non-operating expenses	6,299	60,672
Total other expenses (earnings)	**$ 1,692,207**	$ (1,960,550)

Other expenses (earnings) for the twelve months ended December 31, 2019 increased compared to the twelve months ended December 31, 2018 due to a loss in the fair value of derivative liabilities relating to the preferred shares, along with a foreign exchange loss impacting the value of Canadian dollar denominated debentures & Canadian currency assets. The interest expense increased due to non-cash interest relating to the accretion of interest for the preferred share and lease obligations.

Goodwill was recorded from a previous business acquisition based on the excess of total considering paid less the fair value of the assets and liabilities acquired. IFRS standards require that the goodwill balance be assessed for impairment at least annually or more frequently if events or changes in circumstances indicate that the balance might be impaired. An impairment test was performed on December 31, 2019. The impairment test performed resulted in no impairment of goodwill, or intangible assets as at December 31, 2019. If the Company were to determine that an impairment exists, then a goodwill impairment charge would be made against earnings at such time.

Net Income (Loss) and Comprehensive Loss

	Twelve months ended:	
	December 31, 2019	December 31, 2018
Operating (loss) income	**$ 541,152**	$ (1,144,100)
Total other expenses (earnings)	**1,692,207**	(1,960,550)
Income tax expense	**-**	-
Net (loss) income and comprehensive loss for the period – (basic)	**$ (1,151,055)**	$ 816,450
(Loss) earnings per share – (basic)	**$ (0.03)**	$ 0.02
Net (loss) income and comprehensive loss for the period – (diluted)	**$ (1,151,055)**	$ 816,450
Loss per share – (diluted)	**$ (0.03)**	$ (0.00)

The Company incurred a net loss for the twelve months ended December 31, 2019 compared to net income over the twelve months ended December 31, 2018, due to other non-operating expenses which impacted net income such as changes in fair value of derivative liabilities, interest expense and foreign exchange movements.

LIQUIDITY AND CAPITAL RESOURCES

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

As at December 31, 2019, the Company had cash of $1,849,533 and Net Working Capital of $1,669,735 as compared to cash of $2,827,882 and Net Working Capital of $776,681 as at December 31, 2018.

	Twelve months ended:	
Cash provided by (used in):	**December 31, 2019**	December 31, 2018
Operating activities	**$ 2,114,187**	$ (1,799,295)
Investing activities	**(30,808)**	(21,684)
Financing activities	**(3,020,228)**	2,000,875
Foreign exchange effect on cash	**(41,500)**	222,518
Net (decrease) increase in cash	**$ (978,349)**	$ 402,414

Cash used in operating activities for the twelve months ended December 31, 2019 was attributable to the Company's positive financial performance from operations along with changes in working capital items.

For the twelve months ended December 31, 2019 cash flows relating to investing activities was for the purchase of computer hardware and office furnishings.

The financing activities during the twelve months ended December 31, 2019 relates to the payment of the February 2019 and October 2019 maturing Debenture units. Financing cash flows for the previous twelve-months ended December 31, 2018 relates to the private placement of preferred shares, offset by repayments of debentures.

STAFFING LEVELS

The following table summarizes the Company's headcount by functional group:

	As at December 31, 2019	**As at September 30, 2019**	**As at December 31, 2018**
Sales and marketing	13	14	13
Support	19	18	18
Research and development	10	10	10
Administration	6	6	5
Total	**48**	**48**	**46**

COMMITMENTS

The Company has operating leases with respect to its operating premises in Vancouver, British Columbia, Canada.; Atlanta, Georgia, United States; and Akron, Ohio, 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**

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

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.

INTANGIBLE ASSET IMPAIRMENT

The Company has no impaired intangible assets.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

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

	Twelve months ended:	
Cash used in:	**December 31, 2019**	December 31, 2018
Short-term compensation	**$ 636,071**	$ 562,081
Share-based payments	**114,428**	217,220
Total	**$ 750,499**	$ 776,301

During 2019, the Company appointed a new Director who had previously entered into commercial arrangement with the Company with respect to a marketing consulting arrangement with a third-party company controlled by this director. 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 twelve months ended December 31, 2019.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These consolidated financial statements, which have been approved by the Board of Directors on April 28, 2020, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These consolidated financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company's annual financial statements as at and for the year ended December 31, 2019 (except for the adoption of new accounting standards effective January 1, 2019 – see below). Accordingly, these consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2019 (which were prepared in accordance with International Financial Reporting Standards, or "IFRS").

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

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 statements of financial position, as well as a decrease to operating costs (for the removal of rent expense for leases), an increase to depreciation (due to depreciation of the right-of-use asset), and an increase to finance costs (due to accretion of the lease liability). The details of the changes in accounting policies are disclosed below.

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, US 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 is equivalent to the annual dividend obligations for the Company's preferred shares (see Note 14 in the Company's December 31, 2019 Financial Statements) 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**

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.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures.

The carrying values and fair values of financial assets (liabilities) as at December 31, 2019 and December 31, 2018 are summarized 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	$ 1,849,533	$ 2,827,882
Trade and receivables	2,109,677	2,531,208
	$ 3,959,210	$ 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, trade and other receivables, trade payables and accrued liabilities and deferred revenue, their fair values approximate their carrying amounts.

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

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

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

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as at 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.

	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.

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

Credit Risk

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

The Company monitors collectability of receivables on an on-going basis to determine credit risk. In order to mitigate credit risk, the Company offers credit terms to established customers. Other customers are required to pay in advance or by credit card, prior to shipping of the product. At 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:

Credit risk	**December 31, 2019**	December 31, 2018
Cash	$ 1,849,533	$ 2,827,882
Receivables	2,091,356	2,531,208
Total	**$ 3,940,889**	$ 5,359,090

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

Accounts receivable aging	**December 31, 2019**	December 31, 2018
Current	$ 1,371,479	$ 1,583,848
31 - 60 days	327,885	313,987
Over 60 days	391,992	545,563
Total accounts receivable	**$ 2,091,356**	$ 2,443,398
Goods and services tax receivable	18,321	87,810
Total Accounts Receivable plus taxes receivable	**$ 2,109,677**	$ 2,531,208

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company manages its liquidity risk associated with its financial liabilities through the use of cash flow generated from operations, and the issuance of additional equity primarily through private placements, as required to meet the payment requirements of maturing financial liabilities.

The contractual maturities of the Company's trade payables were aged as follows as at December 31, 2019 and December 31, 2018, respectively and does not include accrued liabilities, warranty provision and state and provincial sales tax payable. All trade payables are current liabilities:

Accounts payable aging	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
Total	**$ 857,637**	$ 1,004,134

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as 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 ability of the Company to make the aforementioned payment requirements related to maturing financial liabilities in the near term is dependent on the ability to secure additional financing and the timing of cash flows from operations. The ability to obtain additional financing is dependent on continued access to debt and/or equity markets, which may not be available on acceptable terms. In the event that debt or equity capital is not available on acceptable terms, the Company may need to explore other strategic alternatives.

Interest rate risk

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

Due to the limited and short-term nature of these financial instruments, fluctuations in the interest rates will not have a significant impact on their fair value. As at 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	December 31, 2018
	CDN	CDN
Cash	$ 380,289	$ 2,410,898
Account Receivable	38,955	44,054
Trade payable and accrued liabilities	(200,311)	(12,638)
Net statement of financial position exposure	**$ 218,933**	**$ 2,442,314**

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, without par value and an unlimited number of preferred shares without par value. As of the date of this MD&A, the Company has 42,636,108 common shares outstanding and 16,637,624 preferred shares outstanding.

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect 10% of the issued and outstanding common shares of the Company from time to time. As of December 31, 2019, the Company is entitled to grant incentive stock options for 3,878,509 and has issued 12,000 deferred share units under the Company's Deferred Share Unit Plan. The Company also had 604,579 warrants outstanding.

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 February 6, 2020, the Corporation announced the appointment of a new Director, Mr. Avi Naider. Mr Naider is a graduate of Princeton University and has over twenty-five years of experience operating and advising growth companies in various sectors.

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 10, 2020, the Corporation announced an update with the 4th IR co-development project ("4th IR"). 4th IR has now completed the Caries Module, which is intended to be an AI decision support module for use with Apteryx's existing software platforms and as a standalone product for the general dental market.

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.

On April 2, 2020, the Corporation announced the retirement of Apteryx founder Kevin Crucs. Since the acquisition of Apteryx in February 2017, Mr. Crucs has been serving as vice president of research and development supporting the development of Apteryx's various on-premise imaging software products.

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, 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 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.

RISKS AND UNCERTAINTIES

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

The following are some of the risks that are associated with the Company's business and operations and should be carefully considered by any potential investor in the Company's shares:

History of Losses

The Company has a history of losses, and there can be no assurance that the Company's losses will not continue in the future. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable. The Company uses cash raised in equity markets to partially fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Company will be able to obtain the additional financial resources required to compete in its markets on favorable commercial terms or at all. Any equity offering may result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests.

The availability, or lack thereof, of bank credit, additional supplier credit, or additional equity investment could adversely affect the Company's ability to meet its business objectives. Recent market events and conditions, including disruptions in the Canadian and international credit markets and other financial systems and the deterioration of the Canadian and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Operational Risk

In the normal course of business, the company's operations continue to be influenced by a number of internal and external factors and are exposed to risks and uncertainties that can affect its business, financial condition and operating results. The Company activities are subject to ongoing operational risks, including the performance of key suppliers, product performance, government and other industry regulations, all of which may affect its ability to meet its obligations. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the marketplace, are not approved by regulatory authorities, or if products are not brought to market in a timely manner. The Company is reliant on a small number of key employees, the loss of any one of whom could materially affect operating results and the ability to design and manufacture new products.

Debt Repayment

The Company has significant financial obligations maturing in the near-term including deferred consideration on the purchase of Apteryx, interest payments, debt principal repayments and repayment of the convertible preferred shares upon maturity. Its ability to meet the payment requirements is dependent on generating sufficient cash flows from operations, securing additional financing or renegotiating terms of these obligations.

Further, a significant portion of the Company's financial obligations, namely its senior secured debentures and second secured debentures, are secured against the assets of the Company and certain of its subsidiaries. The debentures also contain certain covenants and events of default, including a cross default provision whereby the Company will be considered in default of the debentures if it defaults on other indebtedness of CDN$100,000 or greater. If the Company were to be in default under the terms of the debentures, the debenture holders could accelerate the debt and seek to seize the assets of the Company, appoint a receiver, commence bankruptcy or insolvency proceedings or exercise other rights as secured creditors. Any such actions by its secured creditors would have a material adverse effect on the financial position and future viability of the Company.

Distributor Risks

The Company distributes its VELscope® product line in the North American market through non-exclusive distribution partnerships with multiple distributors. The Company reliance on distributors or if the distributors are unable or unwilling to promote and deliver the product to end customers, the Company's financial condition and operating results could be materially impacted. There can be no assurance the Company will be successful in managing the nuances of their markets to ensure the success of the Company's products in those markets.

Disruptions in Production

Factors that affect the production and sale of the Company's products which could result in decreases in profitability include: (a) Acts of God; (b) the expiration or termination of leases, contracts, permits or licenses; (c) sales price redeterminations; (d) future litigation; (e) work stoppages or other labor difficulties; (f) disputes with suppliers, distributors and subcontractors; (g) political risk with offshore suppliers; (h) reliance on suppliers with highly technical and not easily replaceable expertise; and (i) changes in the market and general economic conditions. Weather conditions, equipment replacement or repair and fires can have a significant impact on operating results.

Seasonality

Sales may have seasonal components which may result in significant variances in quarterly operating results and may also significantly increase working capital requirements on a quarterly basis.

New Diseases and Epidemics (such as COVID-19)

The expected impact and extent of the spread of COVID-19, and the duration and intensity of resulting global business disruption and related financial and social impact, are uncertain, and such adverse effects are likely to be material. The actual and threatened spread of COVID-19 globally could adversely affect global economies and financial markets resulting in a prolonged economic downturn and a potential decline in the value of the Company's stock price. The extent to which COVID-19 (or any other disease, epidemic or pandemic) impacts business activity or financial results, and the duration of any such negative impact, will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning COVID-19 and the actions required to contain or treat its impact, among others.

Working Capital Requirements

Although Company management believes in the long-term opportunity and its ability to execute on its business plan, the continued growth and success of the Company is tied to its ability to raise additional capital. The Company may not be able to raise capital or obtain favorable credit terms or debt financing to finance the investment into working capital for the business.

Management's Estimates

Management's estimates may prove to be inaccurate due to unexpected changes in business or market conditions.

Regulatory Requirements

Regulatory requirements in international markets may require clinical or other studies that may restrict the ability or timing of the Company to sell in these markets.

The Company faces regulatory risk including national security review risk by the Committee on Foreign Investment in the United States.

Dependence on Suppliers

The Company has a limited number of suppliers for the raw materials required for its products. A dispute with one of these suppliers, or adverse changes in the business of the suppliers may have a negative impact on the business, operating results and financial condition of the Company if it is unable to source comparable raw materials from alternate sources at competitive rates. Reliance on key distribution partners whose products the Company resells/distributes as part of its new imaging produce offering. The Company has agreements with its manufacturer

distribution partners that have termination for convenience provisions of various time frames. In the event a termination notice is received from a key supplier and the Company is not able to reach an agreement with an alternative supplier in a timely manner. This could result in a material adverse effect on the Company's product offering and recognized revenue.

Dependence on a Limited Number of Third-Party Product Vendors

The Company is a distributor of third-party products to its customers, which are supplied by vendors such as RAY Company. The Company is dependent upon the timely availability of these third-party products in addition to obtaining reasonable commercial terms pertaining to the purchase of such third-party products for resale by the Company. The distribution agreements between the Company and these third-party vendors include termination by the vendor with a limited notice period. In the event that the distribution agreement is either terminated by the third-party vendor or the third-party vendor is not able to supply the Company with its products or the vendor competes with the Company either directly or indirectly in its market, the Company's ability to resell such third-party products may be hindered accordingly resulting in a material adverse effect on the Company's revenue and related gross margin[8] due to no longer being able to sell such third-party products.

Reliance on Subcontractors

The Company utilizes a primary supplier for the production and supply of its products with the corresponding dependence on subcontractors who are responsible for their respective manufacturing requirements. If the primary supplier experiences business interruption issues or ceases operations or in the event that the Company's respective subcontractors manufacturing a material amount of products cease operations or are unable to come to terms on suitable arrangements with Apteryx Imaging Inc, the Company's business and profitability may be adversely affected.

The Company May Not Realize the Benefits Currently Anticipated

As part of its strategy, the Company intends to continue its efforts to expand its existing customer base and products. A number of risks and uncertainties are associated with the development of new customers and products, including political, regulatory, design, sourcing, labor, operating, technical, technological risks and limited accessibility to distribution and or non-economic distribution channels. There are also uncertainties relating to capital and other costs, and financing risks in developing new products. The failure to develop one or more of these initiatives successfully could have an adverse effect on the Company's financial position and results of operations.

Operating Cost Fluctuations

Although the Company believes it has prudently adopted conservative assumptions in its business planning and related cost estimations, no assurances can be given that such assumptions will prove to be accurate, and, therefore, the operating costs of the Company may prove to be higher or lower than those estimated. These estimates are influenced by the availability and pricing of third-party raw materials and components required in the Company's products. The transition to higher cost US operations, which are fixed in general, increases breakeven point, which may not be fully funded by sales resulting in negative cash flow.

Fluctuations in Exchange Rates

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. The Company attempts to mitigate this risk by denominating many of its payment obligations in U.S. dollars. The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations of the Company.

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

Taxation

Canadian taxation authorities may challenge expense or tax credits claimed by the Company including research and development expenses and related tax credits. If Canadian tax authorities successfully challenge such expenses or the correctness of tax credit claims, the Company's operating results could be adversely affected. If Canadian taxation authorities reduce the tax credit either by reducing the rate of the grant or the eligibility of some research and development expenses in the future, the Company's operating results will be adversely affected.

Worsened General Economic Conditions

The decline in the global economic environment in recent years and the continuing economic instability in certain parts of the world resulted in increasing uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. If the global economic climate does not recover, the Company may not generate the sales activity required to support its operations resulting in requirement for additional restructurings and erosion of its existing capital resources, which may hinder the future viability of the Company.

Additional Financing

The Company has a history of operating losses and uses cash raised in equity markets to partially fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities and sales and marketing efforts and may be unable to continue operations. There can be no assurance that the Company will be able to obtain the additional financial resources required to compete in its markets on favorable commercial terms or at all. Any equity offering may result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests. The availability, or lack thereof, of bank credit, additional supplier credit, or additional equity investment could adversely affect the Company's ability to meet its business objectives. Recent market events and conditions, including disruptions in the Canadian and international credit markets and other financial systems and the deterioration of the Canadian and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Research and Development

If the Company fails to develop new products, incurs delays in developing new products, or if the product the Company develops are not successful, the Company's business could be harmed. Even if the Company does develop new products, which are accepted by its target markets, the Company cannot assure that the revenue from these products will be sufficient to justify the Company's investment in research and development.

Stock Price Volatility

The market price for the common shares of the Company fluctuates significantly, and these fluctuations tend to be exaggerated if the trading volume is low. The market price of the common shares may rise or fall in response to announcements of technological or competitive developments, acquisitions or strategic alliances by the Company or its competitors, the gain or loss by the Company of significant orders or broad market fluctuations. The Company has expanded to the OTC stock exchange in the United States and Frankfurt Stock Exchange in Germany, which may not increase future trading volume of the Company's common shares.

Customer Credit Risk

Historically, the Company has offered very limited credit terms to our customers. As its customer base expands, as orders increase in size, the Company expects to offer increased credit terms and flexible payment programs to its customers. Doing so may subject the Company to increased credit risk, higher accounts receivable with longer days outstanding, and increases in charges or reserves, which could have a material adverse effect on its business, results of operations and financial condition.

Product Development and Technological Change

The market for the Company's products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To be successful, the Company will need to enhance existing products and to introduce new products and features in response to changing standards, customer requirements, and technological

innovations by others. There can be no assurance that the Company will be successful in doing this in a timely manner or at all. There can be no assurance that products or technologies developed by others will not render the Company's products obsolete or non-competitive. There is no assurance that the Company will be able to successfully develop next generation operational products. Failure to do so may have an adverse effect on the business, operating results and financial condition of the Company.

Sales and Marketing and Strategic Alliances

The Company has focused its distribution sales and marketing initiatives with a primary distributor in North America resulting in significant dependency for sales of its products on this primary distributor. If the Company is to become successful, it must continue to expand its sales and distribution channels and its marketing and technology alliances. There is no assurance the Company will be able to reach agreements with additional alliance or distribution partners on a timely basis or at all, or that these partners will devote sufficient resources to advancing the Company's interests. The Company's business, results of operation, financial condition and stock price may be materially adversely affected if any strategic partner discontinues its relationship with the Company for any reason. Additionally, the Company at times relies on the voluntary efforts of its strategic partners rather than compliance with contractual obligations, and here are at times no minimum performance requirements. Therefore, the Company cannot be certain that these relationships will be successful.

Dependence on a Small Number of Customers

The Company markets and sells its products primarily through its primary distributor relationships in North America resulting in economic dependence upon such distributors for the sales of its products. Management believes that revenue derived from current and future large customers will continue to represent a significant portion of total revenue. The inability to continue to secure and maintain a sufficient number of large contracts would have a material adverse effect on the business, financial condition, operating results and cash flows of the Company. Moreover, the success of the Company will depend in part upon its ability to obtain orders from new customers, as well as the financial condition and success of its customers and general economic conditions.

Intellectual Property Protection

The Company's ability to compete may be affected by its ability to protect its intellectual property. It relies primarily on a combination of copyright, trademark, patent and trade secret laws, confidentiality procedures and contractual provisions to protect its intellectual property. While the Company believes that its products and technologies are adequately protected against infringement, there can be no assurance of effective protection. Monitoring and identifying unauthorized use of the Company's technology is difficult, and the prohibitive cost of litigation may impair the Company's ability to prosecute any infringement. The commercial success of the Company will also depend upon its products not infringing any intellectual property rights of others and upon no claims for infringement being made against the Company. The Company believes that it is not infringing any intellectual property rights of third parties, but there can be no assurance that such infringement will not occur. Infringement claims against the Company by a third party, even if it is invalid, could have a material adverse effect on the Company because of the costs of defending against such a claim. The Company may fail to protect or obtain protection of intellectual property. In addition, the Company may be exposed to infringement, misappropriation or other claims by third parties, which, if determined adversely, could result in the Company paying significant damage awards.

The Company currently uses patents, trademarks and contractual arrangements with employees to protect its intellectual property rights. The Company's existing and future patents could be challenged, invalidated, circumvented or rendered unenforceable. The Company's pending patent applications may not result in issued patents, or if patents are issued, such patents may not provide meaningful protection again competitors or against competitive technology. Patents afford only limited protection, and the actions that the Company takes to protect intellectual property rights may not be adequate. In addition, the process of seeking patent and trademark protection can be time consuming and expensive and there can be no assurance that any future patent or trademark applications will be granted in respect of the Company's technology or business.

Competition

Because of intense market competition, the Company may not succeed. Some of the Company's current and potential competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other

resources than the Company. Current and potential competitors may also have existing relationships with many of the Company's prospective customers, and prospective OEM customers may be developing products for their own use that are comparable to the Company's products. In addition, the Company expects competition to persist and intensify in the future, which could adversely affect the Company's ability to increase sales. Competitors have and may in the future align themselves with one or more of several large distributors of dental products, which may include exclusive marketing arrangements making a significant portion of the market unavailable to Apteryx Imaging Inc.

Potential Fluctuations in Quarterly Results

The Company's quarterly operating results may vary significantly depending on factors such as the timing of new product introductions and changes in pricing policies by the Company and its competitors, market acceptance of new and enhanced versions of the Company's products and the timing of significant orders. Because the Company's operating expenses are based on anticipated revenue and a high percentage of the Company's expenses are relatively fixed in the short term, variations in the timing of recognition of revenue can cause significant fluctuations in operating results from quarter to quarter and may result in unanticipated quarterly earnings shortfalls or losses. The market price of the Company's common shares may be highly volatile in response to such quarterly fluctuations.

Dependence on Key Personnel

The Company's future success depends largely on its ability to attract and retain talented employees. The Company's future results of operations will depend in part on the ability of its officers, management and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Company's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel. If the Company were to lose the services of any key personnel, the Company may encounter difficulties finding qualified replacement personnel. The Company's success is largely attributable to the leadership, contacts and efforts of the Company's chief executive officer and senior management. If the Company's Chief Executive Officer or one or more of the members of the senior management cease working with the Company, and the Company is unable to engage suitable replacements on a timely and commercially viable basis, the business, operating results and financial condition of the Company may be adversely affected.

Acquisitions

The Company has, and in the future may, acquire businesses, products or technologies that it believes complement or expand its existing business. Acquisitions of this type involve a number of risks, including the possibility that the operations of the acquired business will not be profitable or that the attention of the Company's management will be diverted from the day-to-day operation of its business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Any acquisition could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that any acquisitions will be successfully completed or that, if one or more acquisitions are completed, the acquired businesses, products or technologies will generate sufficient revenue to offset the associated costs of the acquisitions or other adverse effects.

Product Liability and Medical Malpractice Claims

Apteryx Imaging Inc. will be exposed to risks associated with product liability claims if the use of the Company's products results in injury or property damage. Users and their patients of the VELscope® may be injured as a result of malfunctions, defects or other causes. In addition, medical malpractice claims may be brought against the Company. Because of the Company's limited operating history, it is difficult to predict if product liability or medical malpractice claims will be brought in the future. Apteryx Imaging Inc. carries what it believes to be adequate product liability insurance, but the Company may not have adequate resources to satisfy a judgment if a successful claim is brought. The assertion of product liability or medical malpractice claims may also significantly damage the Company's reputation.

Future Share Sales

If the Company's shareholders sell substantial amounts of the Company's common shares, the market price of the Company's common shares could decrease.

Management of Growth

The Company's future results of operations will depend in part on the ability of its officers and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Company's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel. Substantial growth in the Company's software initiatives may require the Company to raise additional capital through the issuance of additional shares or securing financing. There can be no assurance that the Company would be able to secure additional funding through these activities.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

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