APTERYX
IMAGING

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(UNAUDITED, EXPRESSED IN U.S. DOLLARS)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Dr. David Gane
Chief Executive Officer
November 26, 2019

APTERYX IMAGING INC.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited and Expressed in U.S. Dollars)

	Notes	as at September 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**$ 2,468,056**	$ 2,827,882
Trade and other receivables	4	**1,836,341**	2,531,208
Inventory	5	**1,700,131**	891,331
Prepaid expenses and deposits		**551,382**	476,633
		6,555,910	6,727,054
Non-current assets			
Property and equipment	6	**63,843**	63,395
Intangible assets	7	**6,158,862**	6,785,187
Goodwill	9	**1,868,130**	1,868,130
Right of use lease asset	8	**169,513**	-
Total assets		**$ 14,816,258**	$ 15,443,766
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables and accrued liabilities	10	**$ 2,388,092**	$ 2,042,424
Deferred revenue		**698,075**	899,701
Debentures	13	**1,875,675**	2,558,248
Lease liability	11	**72,604**	-
Deferred consideration on acquisition		**-**	450,000
		5,034,446	5,950,373
Non-current liabilities			
Preferred shares	14	**2,940,013**	2,504,044
Derivative preferred share liability	14	**3,373,808**	2,901,787
Lease liability	11	**85,806**	-
Warrants	15	**-**	155
Total liabilities		**11,434,073**	11,356,359
Shareholders' equity			
Share capital	16	**$ 51,758,046**	$ 50,944,234
Stock-based payment reserve	17	**3,266,183**	3,139,368
Warrants reserve	15	**130,475**	494,287
Accumulated other comprehensive income		**474,458**	474,458
Deficit		**(52,246,977)**	(50,964,940)
Total shareholders' equity		**3,382,185**	4,087,407
Total liabilities and shareholders' equity		**$ 14,816,258**	$ 15,443,766

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 12)

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

Approved on behalf of the Board of Directors:

" David Gane"
Chief Executive Officer
Dr. David Gane

" George Reznik"
Director
George Reznik

APTERYX IMAGING INC.

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

(Unaudited and Expressed in U.S. Dollars)

For the three and nine months ended September 30, 2019 and 2018

	Notes	**Three months ended Sept 30, 2019**	Three months ended Sept 30, 2018	**Nine Months ended Sept 30, 2019**	Nine months ended Sept 30, 2018
Revenues	19	**$ 3,166,093**	$ 3,400,904	**$ 10,913,643**	$ 10,404,183
Cost of goods sold		**1,060,465**	1,081,317	**3,549,491**	3,765,533
		2,105,628	2,319,587	**7,364,152**	6,638,650
Expenses					
Sales, marketing and support	24	**1,307,535**	1,148,091	**3,783,168**	3,750,347
Research and development	24	**353,182**	299,520	**1,075,329**	870,730
Administration	24	**494,713**	486,352	**1,489,209**	1,503,798
Stock-based compensation	17	**27,856**	72,732	**126,814**	273,993
Depreciation and amortization	6/7	**235,893**	232,247	**705,268**	683,196
		2,419,179	2,238,942	**7,179,788**	7,082,064
Operating income (loss)		**(313,551)**	80,645	**184,364**	(443,414)
Other expenses/(earnings)					
Change in fair value of Canadian dollar denominated warrants	15	**-**	16,399	**(155)**	(1,204,425)
Change in fair value of derivative preferred share liability	14	**(93,260)**	-	**381,523**	-
Foreign exchange (gain) loss		**(79,755)**	(16,494)	**210,726**	(237,820)
Other non-operating expenses		**-**	-	**(2,812)**	-
Interest	13/14	**295,757**	257,247	**887,849**	720,514
		122,742	257,152	**1,477,131**	(721,731)
Net income (loss) and comprehensive income (loss) before income taxes		**$ (436,293)**	$ (176,507)	**$ (1,292,767)**	$ 278,317
Income tax expense		**-**	-	**-**	-
Net income (loss) and comprehensive income (loss) for the period		**$ (436,293)**	$ (176,507)	**$ (1,292,767)**	$ 278,317
Income (Loss) per share – basic and diluted	22	**($ 0.01)**	$ (0.00)	**($ 0.03)**	$ 0.01
Weighted average number of shares outstanding – basic and diluted		**37,938,636**	37,914,636	**38,326,597**	37,914,636

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

APTERYX IMAGING

APTERYX IMAGING INC.

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

(Unaudited and Expressed in U.S. Dollars)

	Number of Shares	Share Capital	Stock-based Payments Reserves	Warrants Reserve	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity (Deficiency)
Balance, January 1, 2018	**37,914,636**	**$ 50,944,234**	**$ 2,799,476**	**$ 381,374**	**($ 51,781,389)**	**$ 474,458**	**$ 2,818,153**
Issuance of share on exercise of DSU	24,000	-	-	-	-	-	-
Stock based compensation	-	-	339,892	-	-	-	339,892
Finder warrants issued pursuant to preferred share financing	-	-	-	112,913	-	-	112,913
Net income and comprehensive income for the year	-	-	-	-	816,450	-	816,450
Balance, December 31, 2018	**37,938,636**	**$ 50,944,234**	**$ 3,139,368**	**$ 494,287**	**($ 50,964,940)**	**$ 474,458**	**$ 4,087,407**
Adjustment from the adoption of IFRS 16	-	-	-	-	10,728	-	10,728
Adjusted balance at January 1, 2019	**37,938,636**	**$ 50,944,234**	**$ 3,139,368**	**$ 494,287**	**($ 50,954,212)**	**$ 474,458**	**$ 4,098,135**
Shares issued as settlement on the purchase of Apteryx	846,460	450,000	-	-	-	-	450,000
Settlement of share capital on expiry of unexercised warrants	-	363,812	-	(363,812)	-	-	-
Stock based compensation	-	-	126,814	-	-	-	126,814
Net loss and comprehensive loss for the period	-	-	-	-	(1,292,765)	-	(1,292,765)
Balance, September 30, 2019	**38,785,096**	**$ 51,758,046**	**$ 3,266,183**	**$ 130,475**	**($ 52,246,977)**	**$ 474,458**	**$ 3,382,185**

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

APTERYX IMAGING INC.

Interim Condensed Consolidated Statements of Cash Flow

(Unaudited and Expressed in U.S. Dollars)

For the three and nine months ended September 30, 2019 and 2018

	Three months ended Sept 30, 2019	Three months ended Sept 30, 2018	**Nine months ended Sept 30, 2019**	Nine months ended Sept 30, 2018
Cash flows from operating activities				
Net income (loss) for the period	**$ (436,293)**	$(176,507)	**$ (1,292,767)**	$ 278,317
Adjustments to net income (loss) for items not involving cash:				
Depreciation and amortization	**235,893**	232,247	**705,269**	683,196
Change in fair value of Canadian dollar denominated warrants	**-**	16,399	**(155)**	(1,204,425)
Change in fair value of derivative liabilities	**(93,260)**	-	**381,523**	-
Lease liability	**(7,996)**	(5,277)	**(56,880)**	(15,183)
Stock-based compensation	**27,856**	72,732	**126,814**	273,993
Unrealized foreign exchange gain/loss	**82,757**	12,426	**216,980**	236,120
Interest accretion	**295,757**	269,915	**887,849**	494,205
Bad debt expense	**-**	-	**-**	-
	104,714	421,935	**968,633**	746,223
Changes in working capital assets and liabilities:				
Trade and other receivables	**1,039,285**	(182,544)	**694,868**	(471,904)
Inventory	**(636,345)**	(79,115)	**(808,800)**	(251,678)
Prepaid expenses and deposits	**(4,334)**	117,699	**(74,749)**	96,758
Trade payables and accrued liabilities	**(474,225)**	(88,394)	**345,668**	(223,283)
Deferred revenue	**(7,342)**	13,098	**(201,626)**	(304,493)
	(82,961)	(219,256)	**(44,639)**	(1,154,600)
Interest paid	**(142,967)**	(88,302)	**(441,326)**	(237,685)
Cash flows used in operating activities	**(121,214)**	114,377	**482,668**	(646,062)
Cash flows from investing activities				
Purchase of equipment	**(15,260)**	(3,358)	**(22,888)**	(20,356)
Cash flows provided by (used in) investing activities	**(15,260)**	(3,358)	**(22,888)**	(20,356)
Cash flows from financing activities				
Issuance of units, net of issuance costs	**-**	3,688,907		3,688,907
Payment of deferred consideration	**-**	(755,063)		(1,200,000)
Payment of Debentures	**-**	(799,105)	**(842,937)**	(799,105)
Proceeds from debenture issuance	**-**	-		200,000
Cash flows provided by (used in) financing activities	**-**	2,139,802	**(842,937)**	1,889,802
Increase (Decrease) in cash and cash equivalents	**(136,474)**	2,250,821	**(383,157)**	1,223,384
Foreign exchange effect on cash and cash equivalents	**(173,361)**	(12,426)	**23,331**	(236,120)
Cash and cash equivalents, beginning of period	**2,777,891**	1,174,337	**2,827,882**	2,245,468
Cash and cash equivalents, end of period	**$ 2,468,056**	$ 3,412,732	**$ 2,468,056**	$ 3,412,732

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

APTERYX IMAGING

1. NATURE OF OPERATIONS AND GOING CONCERN

Apteryx Imaging Inc. (the "Company"), formerly LED Medical Diagnostics Inc., was incorporated under the British Columbia Business Corporations Act on July 17, 2002 as 651192 B.C. Ltd. and changed its name to LED Medical Diagnostics Inc. on August 20, 2003, then changed its name to Apteryx Imaging Inc. on September 3, 2019. The Company's head office and principal address are located at 810 – 580 Hornby Street, British Columbia, Canada, V6C 3B6. The registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3. The Company is listed on the TSX Venture Exchange (TSX-V) under the trading symbol XRAY.

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

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

The Company has developed, and markets, a medical device under the trade name VELscope®. The device is used in the dental profession to help identify oral soft tissue abnormalities including those which may be cancerous or precancerous and to help define appropriate margins for surgical excision. The Company also features its digital imaging product line that provides dentists and oral health specialists with advanced diagnostic imaging devices including the proprietary Tuxedo intraoral sensor and a suite of imaging software solutions including XVWeb® Software as a service (SaaS) and related services. On February 10, 2017, the Company acquired 100% of the common shares of Apteryx, Inc. ("Apteryx"). Apteryx is a custom software development company located in Akron, Ohio specializing in dental imaging software development and software support services.

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

The Company had negative cash flow from operations of $121,214 for the three months ended September 30, 2019. As at September 30, 2019, the Company had an accumulated deficit of $52,246,977. Management assesses the Company's ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. Material uncertainties have been identified which may cast significant doubt upon the Company's ability to continue as a going concern. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.

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

- The Company has USD$1.9 million of debentures outstanding at September 30, 2019 of which USD$1.9 million is payable over the next 12 months. Refer to subsequent event Note 25.
- The Company has a history of operating losses since inception and not achieving its revenue and cash flow objectives for its annual fiscal plans approved by the board of directors.
- The Company's current forecasted future cash flows are adequate to meet its debenture and related interest payment and preferred share dividend obligations over the next 12 months.
- The Company has relied on equity and debt financings to fund its operating losses. Although the Company has a good track record for raising financing there is no guarantee it will be successful in its efforts to raise additional financing or if financing is available, that it will be on terms that are acceptable to the Company.

The Company's ability to continue as a going concern is dependent upon its ability raise adequate financing and achieve significant improvements in operating results in the future.

The assessment of the Company's ability to execute its strategy and fund future working capital requirements involves significant judgement. Estimates and assumptions regarding future operating costs, revenue and profitability levels and general business and customer conditions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As at September 30, 2019 and as at the date of approval of these interim condensed consolidated financial statements, the outcome of these activities is unknown and subject to considerable uncertainty. These consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties or if such adjustments would be material.

2. BASIS OF PRESENTATION

Statement of Compliance

These interim condensed consolidated financial statements, which have been approved by the Board of Directors on November 26, 2019, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). These interim condensed consolidated financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company's annual financial statements as at and for the year ended December 31, 2018 (except for the adoption of new accounting standards effective January 1, 2019 – see below). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2018 (which were prepared in accordance with International Financial Reporting Standards, or "IFRS").

3. SIGNIFICANT ACCOUNTING POLICIES

New Standards and Interpretations Adopted

The Company applied, for the first time, IFRS 16 – Leases. The nature and effect of those changes are disclosed below.

IFRS 16 - Leases

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

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

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

Definition of a Lease

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

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

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

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

As a Lessee

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

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

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

Prior to adopting IFRS 16, the total minimum operating lease commitments as at December 31, 2018 were $263,461. The weighted average discount rate applied to the total lease liabilities recognized on transition was 5.00%, which is equivalent to the annual dividend obligations for the Company's preferred shares (see Note 14). The difference between the total of the minimum lease payments set out in Note 12 (a) to the Company's 2018 Annual Financial Statements and the total lease liabilities recognized on transition was a result of:

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

Right-of-use assets and lease liabilities

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

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

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

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

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

4. TRADE AND OTHER RECEIVABLES

	September 30, 2019	December 31, 2018
Trade accounts receivable	**$ 1,792,251**	$ 2,443,399
Goods and services tax receivable	**44,090**	87,809
	1,836,341	$ 2,531,208

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

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

5. INVENTORY

	September 30, 2019	December 31, 2018
VELscope® products	**$ 288,231**	$ 237,315
Digital Imaging products	**1,411,900**	654,016
	$ 1,700,131	$ 891,331

Inventory is valued at the lower of cost and net realizable value. Cost includes the costs of purchases net of vendor allowances. The Company estimates net realizable value as the amount at which inventories are expected to be sold. When the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices, the write-down of inventories is recognized as an expense. Storage and shipping costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. During the nine months ended September 30, 2019 and 2018 the Company had an inventory write down of nil (2018 - nil). During the nine months ended September 30, 2019, $3,155,010 of inventory was expensed in cost of goods sold (nine months ended September 30, 2018 – $3,544,845).

6. PROPERTY AND EQUIPMENT

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

Cost

	Equipment	**Computer Equipment**	**Leasehold Improvements**	**Total**
Balance, January 1, 2018	**$ 584,095**	**$ 127,160**	**$ 59,681**	**$ 770,936**
Additions	16,998	4,686	-	21,684
Balance, December 31, 2018	**$ 601,093**	**$ 131,846**	**$ 59,681**	**$ 792,620**
Additions	11,524	11,364	-	22,888
Balance, September 30, 2019	**$ 612,617**	**$ 143,210**	**$ 59,681**	**$ 815,508**

Accumulated Depreciation

	Equipment	**Computer Equipment**	**Leasehold Improvements**	**Total**
Balance, January 1, 2018	**$ 526,156**	**$ 69,751**	**$ 22,532**	**$ 618,439**
Depreciation	33,404	25,909	8,971	68,284
Disposals	14,324	-	28,178	42,502
Balance, December 31, 2018	**$ 573,884**	**$ 95,660**	**$ 59,681**	**$ 729,225**
Depreciation	6,487	15,953	-	22,440
Disposals	-	-	-	-
Balance, September 30, 2019	**$ 580,371**	**$ 111,613**	**$ 59,681**	**$ 751,665**

Carrying Value

	Equipment	**Computer Equipment**	**Leasehold Improvements**	**Total**
Balance, September 30, 2019	**$ 32,246**	**$ 31,597**	**-**	**$ 64,843**
Balance, December 31, 2018	$ 27,209	$ 36,186	-	$ 63,395

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

7. INTANGIBLE ASSETS

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

Cost

	Acquired Software Technology	Customer Base	Patents	Brand	Total
Balance, January 1, 2018	$ 6,780,000	$ 960,000	$ 470,000	$ 141,000	$ 8,351,000
Additions	-	-	-	-	-
Balance, December 31, 2018	**$ 6,780,000**	**$ 960,000**	**$ 470,000**	**$ 141,000**	**$ 8,351,000**
Additions	-	-	-	-	-
Balance, September 30, 2019	**$ 6,780,000**	**$ 960,000**	**$ 470,000**	**$ 141,000**	**$ 8,351,000**

Accumulated Amortization

	Acquired Software Technology	Customer Base	Patents	Brand	Total
Balance, January 1, 2018	$ 593,250	$ 84,000	$ 41,125	$ 12,338	$ 730,713
Amortization	678,000	96,000	47,000	14,100	835,100
Balance, December 31, 2018	**$ 1,271,250**	**$ 180,000**	**$ 88,125**	**$ 26,438**	**$ 1,565,813**
Amortization	508,500	72,000	35,250	10,575	626,325
Balance, September 30, 2019	**$ 1,779,750**	**$ 252,000**	**$ 123,375**	**$ 37,013**	**$ 2,192,138**

Carrying Value

	Acquired Software Technology	Customer Base	Patents	Brand	Total
Balance, September 30, 2019	**$ 5,000,250**	**$ 708,000**	**$ 346,625**	**$ 103,987**	**$ 6,158,862**
Balance, December 31, 2018	$ 5,508,750	$ 780,000	$ 381,875	$ 114,562	$ 6,785,187

8. RIGHT OF USE ASSET

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

	September 30, 2019	December 31, 2018
Beginning Balance	**$ 226,018**	$ 368,176
Purchases	-	-
Amortization	(56,505)	(142,158)
Ending Balance	**$ 169,513**	$ 226,018

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

9. GOODWILL

		Goodwill
Balance, January 1, 2018	$	1,868,130
Additions (impairment)		-
Balance, December 31, 2018	**$**	**1,868,130**
Additions (impairment)		-
Balance, September 30, 2019	**$**	**1,868,130**

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

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

10. TRADE PAYABLES AND ACCRUED LIABILITIES

	September 30, 2019	December 31, 2018
Trade payables	**$ 1,375,547**	$ 1,004,134
Accrued liabilities	**437,326**	572,819
State and provincial sales tax payable	**575,219**	465,471
	$ 2,388,092	$ 2,042,424

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

11. LEASES

The Company has operating leases with respect to its operating premises in Akron, Ohio; Atlanta, Georgia; and Vancouver, Canada. The Company decided to apply recognition exemptions to short-term leases of office space in Atlanta, Georgia, US and Vancouver, BC, Canada. The aggregate of minimum lease payments as at September 30, 2019 are as follows: Below is a summary of the activity related to the Company's lease liabilities:

	September 30, 2019	December 31, 2018
Maturity Analysis – contractual undiscounted cash flows		
Less than one year	$ 33,492	$ 93,061
One to three years	178,528	170,400
Total undiscounted lease liabilities	**$ 212,020**	**$ 263,461**
Lease liabilities included in Consolidated Statements of Financial Position	**$ 158,410**	**$ 215,291**
Current	72,604	75,373
Non-current	85,806	139,918

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

11. LEASES (cont'd)

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

Total operating lease commitments disclosed at September 30, 2019	**$ 212,020**
Recognition exemptions for leases with remaining lease term of less than 12 months	(20,320)
Discounted using incremental borrowing rate	(33,290)
Total lease liabilities recognized under IFRS 16 at September 30, 2019	**$ 158,410**

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

Total operating lease commitments disclosed at December 31, 2018	**$ 263,461**
Recognition exemptions for leases with remaining lease term of less than 12 months	(7,861)
Discounted using incremental borrowing rate	(40,309)
Total lease liabilities recognized under IFRS 16 at January 1, 2019	**$ 215,291**

Total lease payments made for all premises during the three months and nine months ended September 30, 2019 was $44,712 and $134,138 (three and nine months ended September 30, 2018 - $76,243 and $229,603).

12. COMMITMENTS AND CONTINGENCIES

a) The Company has operating leases with respect to its premises in Vancouver, B.C.; Akron, Ohio; and Atlanta, Georgia. The Company elected to terminate a long-term lease obligation for its Atlanta office on December 31, 2018. The Company currently leases a small Atlanta office with a month-to-month lease commitment and as such there are no future minimum lease payments relating to this premises. The aggregate of minimum lease payments as at September 30, 2019 are as follows and does not include the variable operating costs:

2019		33,492
2020		93,328
2021		85,200
Total future minimum lease payments	**$**	**212,020**

b) The Company entered into an agreement with the British Columbia Cancer Agency to pay royalties at a rate of 0.75% of VELscope® until June 24, 2018. As this agreement concluded on June 24, 2018, the Company has not accrued any royalties for the nine months ended September 30, 2019 (September 30, 2018 - $5,240). As at September 30, 2019, total royalties accrued but not paid was $25,408 (September 30, 2018 – $26,080), which are classified as a component of accrued liabilities.

c) On August 1, 2014, the Company entered into a one-year consulting agreement ending July 31, 2015 with the former CEO of the Company whereby the former CEO would be paid CDN$295,000 annually and will receive royalties of 2% of all VELscope® sales until January 1, 2018. As this agreement has now concluded, the Company did not accrue any royalties during the nine months ended September 30, 2019 (nine months ended September 30, 2018 - $0) and made payments of $13,552 (nine months ended September 30, 2018 - $22,210). As at September 30, 2019 total royalties accrued but not paid was $9,437 (September 30, 2018 – $28,290) which was classified as a component of accrued liabilities.

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

e) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. To date, there are no claims or suits outstanding.

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

13. DEBENTURES

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

14. PREFERRED SHARES

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

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

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

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

Below is an aggregate of the preferred share transactions:

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

The terms of the preferred share agreement are inclusive of a dividend escalation clause which may increase the annual dividend payable from 5% to 12% based on failure to comply with two covenants. The two covenants relate to the achievement of a minimum EBITDA balance and if the Company does not achieve the minimum EBITDA balance, the Company must maintain a minimum cash balance. The covenants are in effect each year until maturity in 2023. For the 2018 year, the Company did not comply with the minimum EBITDA covenant due to transaction costs associated with closing of the Financing and Debenture Exchange, however the Company did comply with the minimum cash balance covenant for 2018 and as such there is no impact on the annual dividend rate payable at this time. The Company's current forecast indicates that it may not comply with the minimum EBITDA balance covenant for the 2019 year. Accordingly, the Company may be required to comply with a minimum cash balance covenant for the balance of the term of the preferred shares, failing which the annual dividend rate would increase to 12%. 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 September 30, 2019 all quarterly interest has been paid in cash and accrued interest at September 30 is $0.

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

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

14. PREFERRED SHARES (cont'd)

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

The embedded derivative liability component has been separately measured at fair value as at December 31, 2018 and subsequently re-measured at each subsequent quarter, whereby related changes in fair value are recorded as a gain or loss in the consolidated statement of operations and comprehensive loss, as detailed below. The fair value of the embedded derivative was determined using a Binomial tree model (see Note 21). The revaluation to fair value of the embedded derivative liability component at September 30, 2019 resulted in a gain of $93,260.

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

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

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

	September 30, 2019
Balance as at June 30, 2019	**$ 2,843,246**
Interest Accretion	**$ 129,250**
Foreign Exchange (Gain) / Loss	**$ (32,483)**
Total at September 30, 2019	**$ 2,940,013**

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

	September 30, 2019
Balance as at June 30, 2019	**$ 3,506,439**
Revaluation Gain / (Loss)	**$ (93,260)**
Foreign Exchange (Gain) / Loss	**$ (39,372)**
Total at September 30, 2019	**$ 3,373,808**

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

	September 4, 2018	December 31, 2018	**September 30, 2019**
Preferred Shares	$ 2,461,402	$ 2,504,044	**$ 2,940,013**
Derivative Liability	$ 4,249,948	$ 2,901,787	**$ 3,373,808**
Total	$ 6,711,350	$ 5,405,831	**$ 6,313,821**

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

	Three months ended September 30, 2019
Dividend Cash Interest Expense	**$ 86,563**
Preferred Share Accretion Interest Expense	**$ 129,250**

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

Total interest expense in period	**$ 215,813**
Gain / (Loss) on revaluation of derivative liabilities	**$ (93,260)**

15. WARRANTS

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

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

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

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

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

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

	Warrants Outstanding		**Warrants Exercisable**	
Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Term (Years)**	**Number Exercisable**	**Weighted Average Remaining Term (Years)**
CDN$1.00	88,800	0.08	88,800	0.08
CDN$0.45	604,579	0.93	604,579	0.93
	693,379	**0.83**	**693,379**	**0.93**

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

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

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

16. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

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

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

17. STOCK-BASED PAYMENTS

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

A summary of the Company's outstanding share options is presented below:

	Outstanding options	
	Number of Options (Post Consolidation)	**Weighted Average Exercise Price in (CDN$)**
Outstanding, January 1, 2018	**3,237,002**	**$ 1.12**
Options granted	660,000	0.42
Options forfeited	(434,352)	0.85
Options expired	(19,000)	3.08
Outstanding, December 31, 2018	**3,443,650**	**$ 0.96**
Options granted	460,000	$ 0.38
Options forfeited	(122,886)	$ 0.69
Options expired	(80,000)	$ 1.24
Outstanding, September 30, 2019	**3,700,764**	**$ 0.89**

On August 28, 2019, the Company granted a total of 460,000 stock options exercisable at CDN $0.38 per share in accordance with its stock option plan to director, officers, consultants and employees. The options are for a term of 5 years and vested over a three-year period.

The options outstanding at September 30, 2019 have an exercises price in the range of CDN$0.38 to $4.90 (December 31, 2018 – CDN$0.42 to $4.90) and a weighted average contractual life of 3.20 years (December 31, 2018 – 3.47 years). The amount of options exercisable at the end of September 30, 2019 was 2,244,115 (December 31, 2018 – 1,490,802). The weighted average exercise price of the options exercisable as at September 30, 2019 was $1.05.

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

17. STOCK-BASED PAYMENTS (cont'd)

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

Grant Date of Share Options	Share Price in CDN$	Exercise Price	Annual Dividend Yield of Share Options	Volatility	Risk-Free Interest Rate	Expected Life of the Share Options
February 5, 2016	$1.70	$1.80	Nil	108.56%	0.38%	8 years
May 25, 2016	$1.30	$1.80	Nil	107.90%	0.63%	3 years
April 10, 2017	$0.80	$1.00	Nil	108.56%	0.76%	2 years
April 10, 2017	$0.80	$1.00	Nil	108.56%	0.76%	5 years
April 10, 2017	$0.80	$0.90	Nil	108.56%	0.76%	5 years
May 31, 2017	$0.80	$0.90	Nil	108.56%	0.69%	5 years
May 8, 2018	$0.38	$0.42	Nil	106.09%	1.90%	5 years
August 28, 2019	$0.38	$0.38	Nil	83.83%	1.39%	5 years

For the nine months ended September 30, 2019, the Company recognized $126,374 of stock-based compensation expense (for the nine months ended September 30, 2018 – $201,261 Forfeiture rate is estimated based upon prior year forfeitures as a percentage of the total amount of options issued.

18. DEFERRED SHARE UNITS

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

DSU activity is presented below:

	Number of DSUs	Weighted Average Exercised Price
Outstanding, January 1, 2018	**36,000**	**2.50**
Granted	-	-
Exercised	(24,000)	-
Outstanding, December 31, 2018	**12,000**	**2.50**
Granted	-	-
Exercised	-	-
Outstanding, September 30, 2019	**12,000**	**2.50**

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

19. SEGMENTED INFORMATION

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

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

The Hardware operating segment represents the Company's VELscope® Vx oral assessment device, Tuxedo intraoral sensor and intraoral camera, along with related consumable products and support services. The Software operating segment includes Apteryx's digital imaging software product line and customer support services.

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

19. SEGMENTED INFORMATION (cont'd)

Revenue for each operating segment for the three and nine months ended September 30, 2019 and September 30, 2018 is summarized as follows

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
Hardware	**$ 1,750,661**	$ 1,890,761	**$ 6,504,517**	$ 6,582,386
Software & Services	**$ 1,415,432**	$ 1,510,143	**$ 4,409,127**	$ 3,821,797
Total	**$ 3,166,093**	$ 3,400,904	**$ 10,913,643**	$ 10,404,183

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

20. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

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

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

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

	September 30, 2019	December 31, 2018
Equity/Deficiency	$ 3,382,185	$ 4,087,407
Debentures	1,875,675	2,558,248
Preferred shares	2,940,013	2,504,044
Derivative preferred share liability	3,373,808	2,901,787
	$ 11,571,681	$ 12,051,486
Less: Cash	(2,468,056)	(2,827,882)
	$ 9,103,625	$ 9,223,604

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

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Classification of financial instruments

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

	September 30, 2019	December 31, 2018
Amortized cost:		
Cash	$ 2,468,056	$ 2,827,882
Trade and receivables	1,836,341	2,531,208
	$ 4,304,397	$ 5,359,090

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

	September 30, 2019	December 31, 2018
FVPTL:		
Warrants	$ -	$ 155
Derivative preferred share liability	3,373,808	2,901,787
	$ 3,373,808	$ 2,901,942

	September 30, 2019	December 31, 2018
Other financial liabilities:		
Trades payable and accrued liabilities	$ 2,388,092	$ 1,576,953
Debentures	1,875,675	2,558,248
Preferred Shares	2,940,013	2,504,044
Lease Liability (current)	72,604	-
Lease Liability	85,806	-
Deferred consideration on acquisition	-	450,000
	$ 7,362,190	$ 7,089,245

Fair value

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

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

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

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as at September 30, 2019 and December 31, 2018. As required by IFRS 13, assets and liabilities are classified in their entirety on the lowest level of input that is significant to the fair value measurement.

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

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

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value at September 30, 2019
Derivative preferred share liability	-	-	$ 3,373,808	$ 3,373,808
Total	**-**	**-**	**$ 3,373,808**	**$ 3,373,808**

	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.

The fair value of the derivative liability was calculated using a Binomial Tree model ("Binomial Model"). This derivative has been classified as Level 3 in the fair value hierarchy. Key inputs and assumptions used in the model at initial recognition (September 4, 2018) and as at September 30, 2019 are summarized below:

Valuation Date	**September 30, 2019**	September 4, 2018
Principal amount	CDN$ 9,145,181	CDN$ 9,145,181
Conversion price	CDN$ 0.45	CDN$ 0.45
Forced conversion price	CDN$1.50	CDN$1.50
Share price at valuation date	CDN$ 0.41	CDN$ 0.47
Volatility	89.00%	89.00%
Risk-free rate	1.40%	2.16%
Maturity	3.93 years	5 years

Credit Risk

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

The Company monitors collectability of receivables on an on-going basis to determine credit risk. In order to mitigate credit risk, the Company offers credit terms to established customers. Other customers are required to pay in advance or by credit card, prior to shipping of the product. At September 30, 2019, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

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

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

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

	September 30, 2019	December 31, 2018
Cash	$ 2,468,056	$ 2,827,882
Trade and Other Receivables	1,836,341	2,531,208
	$ 4,304,397	$ 5,359,090

Trade and other receivable balances of $1,792,251 as at September 30, 2019 (December 31, 2018 - $2,443,399) were aged as follows in the below table. It does not include goods and services tax receivable of $44,090 as at September 30, 2019 (December 31, 2018 – $87,810).

	September 30, 2019	December 31, 2018
Current	$ 898,753	$ 1,583,848
31-60 days	126,035	313,987
Over 60 days	767,463	545,563
	$ 1,792,251	$ 2,443,399

Liquidity risk

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

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

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

	September 30, 2019	December 31, 2018
Current	$ 1,287,843	$ 946,334
31-60 days	74,522	6,389
Over 60 days	13,182	51,411
	$ 1,375,547	$ 1,004,134

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

	Within One Year	**Between One and Five years**
Trade payables and accrued liabilities	$ 2,388,092	$ -
Deferred revenue	698,075	-
Debenture	1,875,675	-
Lease Liability	72,604	85,806
Preferred Shares	-	2,940,013
	$ 5,034,446	**$ 3,025,819**

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

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

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

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

Interest rate risk

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

Due to the limited and short-term nature of these financial instruments, fluctuations in the interest rates will not have a significant impact on their fair value. As at September 30, 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:

	September 30, 2019	December 31, 2018
	CDN$	CDN$
Cash	$ 1,177,121	$ 2,410,898
Trade receivables	23,033	44,054
Trade payable and accrued liabilities	(56,055)	(12,638)
Net statement of financial position exposure	**$ 1,144,099**	$ 2,442,314

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

22. NET INCOME (LOSS) PER SHARE

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

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

	September 30, 2019	December 31, 2018
Net income (loss) for the year attributable to shareholders	($ 436,293)	$ 816,450
Net income (loss) per share (basic and diluted)	($ 0.01)	$ 0.02
Weighted average number of shares outstanding (basic and diluted)	38,326,597	37,915,820

23. RELATED PARTY TRANSACTIONS

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

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
Short-term compensation	**$ 161,205**	$ 179,366	**$ 426,237**	$ 560,176
Stock-based payments	**$ 16,570**	$ 47,161	**$ 76,873**	$ 187,993
Total	**$ 177,775**	$ 226,527	**$ 503,110**	$ 748,169

During the three and nine months ended September 30, 2019, there was a change in the board of directors and corporate management team which reduced the short-term compensation and stock-based payments in comparison to the corresponding 2018 periods.

During 2019, the Company entered into a marketing consulting arrangement with a third-party company controlled by one of the Company's Board of Directors. Payments made under this consulting agreement since the time the Director joined the Company have been included in the related parties' short-term compensation for the three and nine months ended September 30, 2019.

24. EMPLOYEE BENEFITS AND DEPRECIATION AND AMORTIZATION

For the nine months ended September 30, 2019, the Company has incurred $4,402,859 of employee benefits (nine months ended September 30, 2018 - $4,479,671) and depreciation and amortization of $705,268 (nine months ended September 30, 2018 - $683,196). Employee benefits include wages, commissions, bonuses, payroll taxes and employee benefits.

25. SUBSEQUENT EVENTS

On October 30, 2019, the Company fulfilled its maturing debenture obligation with cash payments made to the debenture holders, including the principal amount of CDN$2,500,000, plus accrued interest from the last interest payment date.