APTERYX IMAGING

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2019**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of November 26, 2019 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 nine months ended September 30, 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; management's estimates; regulatory requirements; reliance on few suppliers; dependence on limited third party product vendors; reliance on subcontractors; failure to realize benefits currently anticipated; operating cost fluctuations; fluctuations in exchange rates; taxation; economic conditions; additional financing risk; research and development risk; stock price volatility; product development and technological change risk; sales and marketing and strategic alliances risk; dependence on small number of customers; the Company not adequately protecting its intellectual property; competition risk; fluctuations in quarterly results; dependence upon key personnel and hiring; acquisition risk; risks related to product defects and product liability; future share sale risk; management of growth risk and including, but not limited to, other factors described in the Company's reports filed on SEDAR, including its financial statements and management's discussion and analysis for the year ended December 31, 2018. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect the Company's forward-looking information. These and other factors should be considered carefully, and readers should not place undue reliance on such forward-looking information. All forward-looking statements made in this Annual Information Form are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

## OVERVIEW

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 810, 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

The Company's main objectives for the balance of 2019 are to continue to improve EBITDA[1], net income 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, VELscope consumable 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
- Debt reduction / lowering cost of debt

### Corporate Highlights

- On August 28, 2019, the Company announced a corporate name change to Apteryx Imaging Inc., effective September 3, 2019. Apteryx Imaging, Inc. is traded on the TSX-Venture Exchange (TSX-V: XRAY), OTCQB (OTCQB: APTEF), and the Frankfurt Stock Exchange (FSE: LME).
- On September 18, 2019, the Company announced a co-development project with 4th-IR AG, based in Lucerne, Switzerland; to develop a suite of image-based Artificial Intelligence solutions.

### Financial Highlights

- Revenue for the three months ended September 30, 2019 was $3,166,093, a decrease of 7% from the three months ended September 30, 2018. The decrease over the prior year period is primarily due to a reduction in imaging sensors, offset by growth in the Company's recurring and repeatable revenue streams.
- Gross Margin[2] for the three months ended September 30, 2019 was $2,105,628 or 67%, compared to the three months ended September 30, 2018 of $2,319,587 or 66%. The increase in gross margin[2] percentage is due to a 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. The Company also received a volume purchase rebate received from a third-party product manufacturer.
- Operating Expenses (excluding stock-based compensation and depreciation and amortization) remained stable compared to the three months ended June 30, 2019 and increased 11% compared to the three months ending September 30, 2018 due primarily to increased expenses in sales, marketing and customer support initiatives.
- Net loss for the three months ended September 30, 2019 was $436,293 compared to a net loss of $242,479 for the three months ended June 30, 2019. 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 ($121,214) for the three months ended September 30, 2019 compared to $109,067 for the three months ended June 30, 2019. The net cash used in financing activities was nil for the three months September 30, 2019 compared to the three months ended September 30, 2018 of $2,138,802 relating to the Company's private placement Preferred Share financing.
- The Company had cash of $2,468,056 and Net Working Capital of $1,521,464 as at September 30, 2019. The Company had cash of $2,777,891 and Net Working Capital of $1,762,943 as of June 30, 2019. Net Working Capital is defined as total current assets less total current liabilities.

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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.*

[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 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.*

## 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) | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 |
|---|---|---|---|---|---|---|---|---|
| Cash | $2,468 | $2,778 | $2,540 | $2,828 | $3,413 | $1,174 | $ 1,433 | $ 2,425 |
| Working Capital | 1,521 | 1,763 | 1,490 | 77 | 2,576 | (2,566) | (2,791) | (1,221) |
| Total Assets | 14,816 | 15,745 | 14,901 | 15,444 | 15,815 | 13,655 | 14,332 | 14,857 |
| Total Liabilities | 11,434 | 11,955 | 10,896 | 11,356 | 12,332 | 10,182 | 11,350 | 12,039 |
| Shareholders' Equity | 3,382 | 3,791 | 4,005 | 4,087 | 3,483 | 3,473 | 2,982 | 2,818 |

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.

### Consolidated Statement of Operations:

| *(in US$ '000's, except earnings per share)* | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 |
|---|---|---|---|---|---|---|---|---|
| Revenues | $3,166 | $3,933 | $3,814 | $3,812 | $3,401 | $3,671 | $ 3,332 | $ 3,694 |
| Cost of goods sold | 1,060 | 1,257 | 1,232 | 1,730 | 1,081 | 1,507 | 1,178 | 1,725 |
| Gross margin[2] | 2,106 | 2,676 | 2,582 | 2,082 | 2,320 | 2,164 | 2,154 | 1,968 |
| Expenses: | | | | | | | | |
| Sales, marketing and support | 1,308 | 1,193 | 1,283 | 1,185 | 1,148 | 1,293 | 1,309 | 1,574 |
| Research and development | 353 | 407 | 316 | 292 | 300 | 270 | 300 | 332 |
| Administration | 495 | 563 | 431 | 1,019 | 486 | 501 | 518 | 868 |
| Operating Income (loss) | (50) | 514 | 552 | (414) | 386 | 100 | 27 | (806) |
| Other expenses (income) | 386 | 756 | 1,166 | (952) | 562 | (278) | (48) | 59 |
| Income tax expense | - | - | - | - | - | - | - | - |
| Net profit (loss) | (436) | (242) | (614) | 538 | (176) | 378 | 75 | (865) |
| Net income (loss) per share (basic) | (0.01) | (0.01) | (0.02) | 0.01 | (0.00) | 0.01 | 0.00 | (0.00) |

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

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

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

## FINANCIAL RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019

The following analysis of the results of operations for the three months ended September 30, 2019 includes comparisons to the three months ended June 30, 2019 and September 30, 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: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| **Total revenue** | **$ 3,166,093** | $ 3,933,084 | $ 3,400,904 |

Revenue decreased 7% when compared to the three months ended September 30, 2018 and decreased by 20% from the three months ended June 30, 2019. The decrease 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 September 30, 2019, the Company had no customers that represent 10% or more of total revenue. During the three months ended June 30, 2019 and the three months ended September 30, 2018, revenue from customers which amounted to 10% or more of the Company's revenue was also nil.

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

### Gross Margin[3]

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

| | Three months ended: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| Revenue | **$ 3,166,093** | $ 3,933,084 | $ 3,400,904 |
| Cost of sales | **1,060,465** | 1,256,700 | 1,801,317 |
| **Gross margin[4]** | **$ 2,105,628** | $ 2,676,384 | $ 2,319,587 |
| **Percentage of revenue** | **67%** | 68% | 68% |

Gross margin[3] for the three months ended September 30, 2019 was 67% compared to 68% for the prior three months ended June 30, 2019 and the three months ended September 30, 2018. The Gross margin[4] remains consistent with the prior periods.

The increase in gross margin[5] for the nine months ended September 30, 2019 compared to the nine months ended September 30, 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 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,

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[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.*

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2018. This rebate was applied retroactively to cost of sales for the three months ended June 30, 2019 in the amount of $234,100, based on the volume of imaging sensors sold for the three prior quarters. During the three months ended September 30, 2019 the rebate applied to cost of sales was $39,750.

### Expenses

| | Three months ended: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| Sales, marketing and support | **$ 1,307,535** | $ 1,192,831 | $ 1,148,091 |
| Research and development | **353,182** | 406,590 | 299,520 |
| Administration | **494,713** | 563,429 | 486,352 |
| Other operating expenses | **263,749** | 264,915 | 304,979 |
| **Total expenses** | **$2,419,179** | $ 2,427,765 | $ 2,236,942 |
| **As a percentage of revenue** | **76%** | 62% | 66% |

Expenses for the three months ended September 30, 2019 remained consistent with the expenses for the three months ended June 30, 2019. Compared to the expenses for the three months ended September 30, 2018, the expenses increased by 8% due to an increase in sales, marketing and customer support and research and development expenses offset by a decrease in other operating expenses.

### Sales, Marketing and Support

| | Three months ended: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| **Sales, Marketing & Support Expenses** | **$1,307,535** | $ 1,192,831 | $ 1,148,091 |
| **As a percentage of revenue** | **41%** | 30% | 34% |

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 September 30, 2019 compared to the three months ended June 30, 2019 and September 30, 2018 was due to an increase in customer support expenses along with additional marketing expenses relating to the rebranding and corporate name change initiatives.

### Research and Development

| | Three months ended: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| **Research and Development Expenses** | **$353,182** | $ 406,590 | $ 299,520 |
| **As a percentage of revenue** | **11%** | 10% | 9% |

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.

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

### Administration

| | Three months ended: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| **Administration Expenses** | **$494,713** | $ 563,429 | $ 486,352 |
| **As a percentage of revenue** | **16%** | 14% | 14% |

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 lower for the three months ended September 30, 2019 compared to the three months ended June 30, 2019 due to decreased professional fees.

### Other Operating Expenses

| | Three months ended: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| Stock-based compensation | **$ 27,856** | $ 30,114 | $ 72,732 |
| Depreciation & amortization | **235,893** | 234,801 | 232,247 |
| **Total other operating expenses** | **$ 263,749** | $ 264,915 | $ 304,979 |
| **Percentage of revenue** | **8%** | 7% | 9% |

Other Operating Expenses remain consistent between the three months ended September 30, 2019 and the three months ended June 30, 2019. Other Operating Expenses decreased from the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to a decrease in stock-based compensation expense.

### EBITDA[4]

| | Three months ended: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| Net income (loss) | **$ (436,293)** | $ (242,480) | $ 80 645 |
| Add back: Other expenses (earnings) | **386,491** | 756,014 | 304,979 |
| **EBITDA[4]** | **$ (49,802)** | $ 513,534 | $ 385,624 |

EBITDA[4] was ($49,802) for the three months ended September 30, 2019 compared to $513,534 for the three months ended June 30, 2019 and $385,624 for the three months ended September 30, 2018.

[4] *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.*

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

### Other Expenses (Earnings)

| | Three months ended: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| Change in fair value of Canadian dollar denominated warrants | **$ -** | $ - | 16,399 |
| Change in fair value of derivative liabilities | **(93,260)** | 40,828 | - |
| Foreign exchange (gain) loss | **(79,755)** | 152,708 | (16,494) |
| Interest expense | **295,757** | 297,563 | 257,247 |
| Other non-operating expenses | **-** | - | - |
| **Total other operating expenses (earnings)** | **$ 122,742** | $ 491,099 | $ 257,152 |

For the three months ended September 30, 2019 other expenses decreased in comparison to the three months ended June 30, 2019 due to the change in the fair value of the derivative liabilities and a foreign exchange gain. During the three months ended September 30, 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.

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, 2018. The impairment test performed resulted in no impairment of goodwill, or intangible assets as at December 31, 2018. 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)

| | Three months ended: | | |
|---|---|---|---|
| | **September 30, 2019** | June 30, 2019 | September 30, 2018 |
| Operating income (loss) | **$ (313,551)** | $ 248,619 | $ 80,645 |
| Total other Expenses (earnings) | **122,742** | 491,099 | 257,152 |
| Income tax expense | **-** | - | - |
| **Net income/ (loss) for the period** | **$ (436,293)** | $ (242,480) | $ (176,507) |
| **Earnings/ (Loss) per share** | **$ (0.01)** | $ (0.01) | $ (0.00) |

Net loss for the three months ended September 30, 2019 was $(436,293) or $(0.01) earnings per share compared to net loss of $(242,480) for the three months ended June 30, 2019 or $(0.01) earnings per share and $(176,507) or $(0.00) earnings per share for the three months ended September 30, 2018. Other non-operating expenses including changes in the fair value to derivative liability, foreign exchange losses and interest impacting the net loss figure for the period.

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

## FINANCIAL RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

The following analysis of the results of operations for the nine months ended September 30, 2019 includes comparisons to the nine months ended September 30, 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 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.

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| **Total revenue** | **$ 10,913,643** | $ 10,404,183 |

For the nine months ended September 30, 2019 the Company experienced a 5% increase in revenue compared to the nine months ended September 30, 2018, due to increased sales of Apteryx software and imaging sensor products.

### Gross Margin[5]

The Company experienced the following gross margin[5] for the periods outlined:

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| Revenue | $10,913,643 | $ 10,404,183 |
| Cost of sales | 3,549,491 | 3,765,533 |
| **Gross margin[5]** | **7,364,152** | 6,638,650 |
| **Percentage of revenue** | **67%** | 63% |

The increase in gross margin[5] for the nine months ended September 30, 2019 compared to the nine months ended September 30, 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 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 the three months ended June 30, 2019 for the amount of $234,100, based on the volume of imaging sensors sold for the three prior quarters. During the three months ended September 30, 2019 the rebate applied to cost of sales was $39,750.

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

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

**Expenses**

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| Sales, marketing and support | $ 3,783,168 | $ 3,750,347 |
| Research and development | 1,075,329 | 870,730 |
| Administration | 1,489,209 | 1,503,798 |
| Other operating expenses | 832,082 | 957,189 |
| **Total expenses** | **$ 7,179,788** | $ 7,082,064 |
| **As a percentage of revenue** | **66%** | 68% |

Expenses for the nine months ended September 30, 2019 increased as compared to the nine months ended September 30, 2018 due to the increase in sales, marketing and research and development expenditures.

**Sales, Marketing and support**

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| Sales, Marketing and Support Expenses | **$ 3,783,168** | $ 3,750,347 |
| **Percentage of revenue** | **35%** | 36% |

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 nine months ended September 30, 2019 over the nine months ended September 30, 2018 was due to an increase in customer support activities. Relative to revenue, this expense category has decreased over the comparative 2018 period.

**Research and Development**

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| Research and Development Expenses | **$ 1,075,329** | $ 870,730 |
| **Percentage of revenue** | **10%** | 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. The increase in research and development expenditure for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was due to the development of additional software products.

**Administration**

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| Administration Expenses | **$1,489,209** | $ 1,503,798 |
| **Percentage of revenue** | **14%** | 14% |

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 nine-month period ending September 30, 2018. In the nine-month period ending September 30, 2019, administration expenses decreased due to a reduction in professional fees.

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

**Other Operating Expenses**

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| Stock-based compensation | $ 126,814 | $ 273,993 |
| Depreciation and amortization | 705,268 | 683,196 |
| **Total other operating expenses** | **$ 832,082** | **$ 957,189** |

During the nine months ended September 30, 2019, other operating expenses decreased from the nine months ended September 30, 2018 due to a reduction in stock-based compensation as option grants were reduced in 2018.

**EBITDA**[6]

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| Net income (loss) | $ (1,292,767) | $ (443,414) |
| Add back: Other expenses | 2,309,213 | 957,189 |
| **EBITDA**[6] | **$ 1,016,446** | $ 513,775 |

EBITDA[6] was $1,016,446 for the nine months ended September 30, 2019 compared to $513,775 for the nine months ended September 30, 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.

**Other Expenses (Earnings)**

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| Change in fair value of Canadian dollar denominated warrants | $ (155) | $ (1,204,425) |
| Change in fair value of derivative liabilities | 381,523 | - |
| Foreign exchange loss (gain) | 210,726 | (237,820) |
| Interest expense (income) | 887,849 | 720,514 |
| Other non-operating expenses | (2,812) | - |
| **Total other expenses (earnings)** | **$ 1,477,131** | $ (721,731) |

Other expenses (earnings) for the nine months ended September 30, 2019 increased compared to the nine months ended September 30, 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, 2018. The impairment test performed resulted in no impairment of goodwill, or intangible assets as at December 31, 2018. If the Company were to determine that an impairment exists, then a goodwill impairment charge would be made against earnings at such time.

[6] *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.*

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

**Net Income (Loss) and Comprehensive Loss**

| | Nine months ended: | |
|---|---|---|
| | **September 30, 2019** | September 30, 2018 |
| Operating income (loss) | **$ 184,364** | $ (443,414) |
| Total other expenses (earnings) | **1,477,131** | (721,731) |
| Income tax expense | **-** | - |
| **Net income (loss) and comprehensive loss for the period – (basic)** | **$ (1,292,767)** | $ 278,317 |
| **Earnings (Loss) per share – (basic and diluted)** | **$ (0.03)** | $ 0.01 |

The Company incurred a net loss for the nine months ended September 30, 2019 compared to net income over the nine months ended September 30, 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 September 30, 2019, the Company had cash of $2,468,056 and Net Working Capital of $1,521,464 as compared to cash of $3,412,732 and Net Working Capital of $2,575,754 as at September 30, 2018.

| | Nine months ended: | |
|---|---|---|
| **Cash provided by (used in):** | **September 30, 2019** | September 30, 2018 |
| Operating activities | **$ 482,668** | $ (646,062) |
| Investing activities | **(22,888)** | (20,356) |
| Financing activities | **(842,937)** | 1,889,802 |
| Foreign exchange effect on cash | **23,331** | (236,120) |
| **Net increase (decrease) in cash** | **$ (359,826)** | $ 987,264 |

Cash used in operating activities for the nine months ended September 30, 2019 was attributable to the Company's positive financial performance from operations along with changes in working capital items.

For the nine months ended September 30, 2019 cash flows relating to investing activities was for the purchase of computer hardware and office furnishings.

The financing activities during the nine months ended September 30, 2019 relates to the payment of the February 2019 maturing Debenture units. Financing cash flows for the previous nine-months ended September 30, 2018 relates to the private placement of preferred shares, offset by repayments of debentures.

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

## STAFFING LEVELS

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

| | As at September 30, 2019 | As at June 30, 2019 | As at September 30, 2018 |
|---|---|---|---|
| Sales and marketing | 15 | 13 | 14 |
| Support | 18 | 18 | 17 |
| Research and development | 10 | 10 | 11 |
| Administration | 5 | 5 | 6 |
| **Total** | **48** | **46** | **48** |

## COMMITMENTS

The Company continues to have no bank debt, off-balance sheet financing arrangements or capital leases. The Company has operating leases with respect to its operating premises in Vancouver, B.C.; Atlanta, Georgia; and Akron, Ohio. The aggregate of minimum lease payments for subsequent years as at September 30, 2019 is $212,020.

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

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

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.

## INTANGIBLE ASSET IMPAIRMENT

The Company has no impaired intangible assets.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

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

**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 nine months ended September 30, 2019 and 2018 respectively, the Company paid or accrued the following compensation expenses to key personnel of the Company:

| | **Nine months ended:** | |
|---|---|---|
| **Cash used in:** | **September 30, 2019** | September 30, 2018 |
| Short-term compensation | **$ 426,237** | $ 560,176 |
| Share-based payments | **$ 76,873** | $ 187,993 |
| **Total** | **$ 503,110** | $ 748,169 |

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 nine months ended September 30, 2019.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These consolidated financial statements, which have been approved by the Board of Directors on April 28, 2019, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These consolidated financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company's annual financial statements as at and for the year ended September 30, 2019 (except for the adoption of new accounting standards effective January 1, 2018 – see below). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended September 30, 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 condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management makes assumptions and estimates of the impacts from uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates, as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis, 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 case 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 condensed interim consolidated financial statements for the three months ended September 30, 2019 are consistent with those applied and disclosed in note 3 to the Company's audited consolidated financial statements for the year ended September 30, 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, which requires a restatement of previous financial statements. The nature and effect of those changes are disclosed below.

### IFRS 16 - Leases

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

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

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

#### Definition of a Lease

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

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

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

**As a Lessee**

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

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

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

Prior to adopting IFRS 16, the total minimum operating lease commitments as at December 31, 2018 were $263,461. The weighted average discount rate applied to the total lease liabilities recognized on transition was 5.00%, which is equivalent to the annual dividend obligations for the Company's preferred shares (see Note 12 in the Company's September 30, 2019 Interim Condensed Financial Statements) The difference between the total of the minimum lease payments set out in Note 11 (a) to the Company's 2018 Annual Financial Statements and the total lease liabilities recognized on transition was a result of:

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

**Right-of-use assets and lease liabilities**

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

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

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

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

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

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

**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 | 178,621 | 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 |

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).

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

**FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The following financial instruments are all measured at amortized cost. The fair value of each 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 September 30, 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:

| | **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 |

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

Fair value

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

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

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

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

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

| | **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:

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

| 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 |

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 September 30, 2019, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

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

| **Credit risk** | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| Cash | $ 2,468,056 | $ 2,827,882 |
| Receivables | 1,836,341 | 2,531,208 |
| **Total** | **$ 4,304,397** | $ 5,359,090 |

Trade accounts receivable were aged as follows as at September 30, 2019 and December 31, 2018.

| **Accounts receivable aging** | **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 |
| **Total accounts receivable** | **$ 1,792,251** | $ 2,443,398 |
| Goods and services tax receivable | 44,090 | 87,810 |
| **Total Accounts Receivable plus taxes receivable** | **$ 1,836,341** | $ 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 September 30, 2019 and December 31, 2018, respectively and does not include accrued liabilities, warranty provision and state and provincial sales tax payable, of which are all current. All trade payables are current liabilities:

| **Accounts payable aging** | **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 |
| **Total** | **$ 1,375,547** | $ 1,004,134 |

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as 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 | |
| Preferred Shares | - | |
| | **$ 5,034,446** | **$** |

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 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:

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

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| | **CDN** | CDN |
| Cash | $ 1,177,121 | $ 2,410,898 |
| Account Receivable | 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** |

## DISCLOSURE OF OUTSTANDING SHARE DATA

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

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect 10% of the issued and outstanding common shares of the Company from time to time. As of September 30, 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 693,379 warrants outstanding.

## RISKS AND UNCERTAINTIES

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

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

## 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 nine months ended September 30, 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 and Interim Filings" issued by the Canadian Securities Administrators. They concluded that as at September 30, 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.