

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(EXPRESSED IN U.S. DOLLARS)

Independent Auditor's Report

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To the Shareholders of
LED Medical Diagnostics Inc.

We have audited the accompanying consolidated financial statements of LED Medical Diagnostics Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statement of operations and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of LED Medical Diagnostics Inc. as at December 31, 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net and comprehensive loss of $5,175,899 and negative cash flows from operations of $5,078,306 for the year ended December 31, 2015. As at December 31, 2015, the Company had an accumulated deficit of $43,913,101. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other matter

The consolidated financial statements of LED Medical Diagnostics Inc. for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 30, 2015.

Grant Thornton LLP

Vancouver, Canada
April 8, 2016

Chartered Professional Accountants

LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Financial Position

(Expressed in U.S. Dollars)

	Notes	December 31, 2015	December 31, 2014
Assets			
Current assets			
Cash		**$ 1,987,409**	$ 2,396,994
Trade and other receivables	4	**1,565,853**	1,373,693
Inventory	5	**5,402,187**	3,103,636
Prepaid expenses and deposits	6	**467,351**	176,857
Total current assets		**9,422,800**	7,051,180
Non-current assets			
Prepaid expenses and deposits	6	**104,830**	287,500
Property and equipment	7	**374,206**	411,923
Patents and intellectual property	8	**10,751**	36,557
		$ 9,912,587	$ 7,787,160
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	9	**$ 6,685,719**	$ 4,301,950
Deferred revenue		**746,242**	1,124,621
Warrants	13	**-**	162,872
Debenture	11	**1,246,338**	-
Current portion of finance lease obligation		**-**	3,190
Total current liabilities		**8,678,299**	5,592,633
Non-current liabilities			
Lease liability	10	**87,411**	24,512
Total liabilities		**8,765,710**	5,617,145
Shareholders' Equity			
Share capital	14	**36,135,128**	34,145,786
Stock-based payment reserve	15	**1,912,668**	1,568,645
Warrants reserve		**6,537,724**	4,718,328
Accumulated other comprehensive income		**474,458**	474,458
Deficit		**(43,913,101)**	(38,737,202)
		1,146,877	2,170,015
		$ 9,912,587	$ 7,787,160

Nature and Continuance of Operations (Note 1)

Commitments (Note 10)

Subsequent Events (Note 23)

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

Approved on behalf of the Board:

_____Chief Executive Officer
Dr. David Gane

_____Director
Rodger Tourigny

LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in U.S. Dollars)

For the years ended December 31, 2015 and 2014

	Notes	December 31, 2015	December 31, 2014
Revenues		**$ 13,135,007**	$ 8,961,738
Cost of goods sold		**9,561,060**	5,502,094
		3,573,947	3,459,644
Expenses			
Sales and marketing	22	**5,995,539**	6,277,891
Research and development	22	**189,873**	503,311
Administration	22	**2,082,781**	1,614,644
Stock-based compensation	15	**163,196**	598,641
Other operating expenses	22	**342,532**	167,561
		8,773,921	9,162,048
Operating loss		**(5,199,974)**	(5,702,404)
Other expenses			
Change in fair value of Canadian dollar denominated warrants		**(94,610)**	402,556
Foreign exchange loss		**25,724**	76,170
Interest		**48,906**	-
		(19,980)	478,726
Net loss before income taxes		**(5,179,994)**	(6,181,130)
Income tax recovery	17	**(4,095)**	-
Net loss and comprehensive loss for the year		$ **(5,175,899)**	$ (6,181,130)
Loss per share – basic and diluted	**21**	**$ (0.06)**	$ (0.08)
Weighted average number of shares outstanding – basic and diluted		**91,785,339**	79,821,169

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

LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in U.S. Dollars)

For the years ended December 31, 2015 and 2014

	Number of Shares	Share Capital	Stock-based Payments Reserves	Warrants Reserve	Deficit	Other Comprehensive Income	Total Shareholders' Equity (Deficiency)
Balance, January 1, 2014	**72,996,008**	**$27,242,071**	**$970,004**	**$4,724,698**	**($32,556,072)**	**$474,458**	**$855,159**
Issuance of shares on exercise of warrants	15,612,344	2,991,073	-	(6,370)	-	-	2,984,703
Settlement of warrant liability upon exercise of warrants	-	3,912,302	-	-	-	-	3,912,302
Settlement of warrant liability upon expiry of unexercised warrants	-	340	-	-	-	-	340
Stock-based compensation	-	-	598,641	-	-	-	598,641
Net loss comprehensive loss for the year	-	-	-	-	(6,181,130)	-	(6,181,130)
Balance, December 31, 2014	**88,608,352**	**$34,145,786**	**$1,568,645**	**$4,718,328**	**($38,737,202)**	**$474,458**	**$2,170,015**
Shares issued for cash	22,410,544	1,748,683	-	-	-	-	1,748,683
Issuance of shares on exercise of warrants	1,060,167	172,397	-	-	-	-	172,397
Settlement of warrant liability upon exercise of warrants	-	68,262	-	-	-	-	68,262
Subscriber warrants issued pursuant to private placement	-	-	-	1,766,296	-	-	1,766,296
Finders warrants issued pursuant to private placement	-	-	-	53,100	-	-	53,100
Issuance of share on exercise of DSU	240,000	-	-	-	-	-	-
Stock based compensation	-	-	163,196	-	-	-	163,196
Stock-based compensation classified as consulting expense	-	-	180,827	-	-	-	180,827
Net loss comprehensive loss for the year	-	-	-	-	(5,175,899)	-	(5,175,899)
Balance, December 31, 2015	**112,319,063**	**$36,135,128**	**$1,912,668**	**$6,537,724**	**($43,913,101)**	**$474,458**	**$1,146,877**

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

LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Cash Flow

(Expressed in U.S. Dollars)

For the years ended December 31, 2015 and 2014

	December 31, 2015	December 31, 2014
Cash flows from operating activities		
Net loss for the year	$ (5,175,899)	$ (6,181,130)
Adjustments to net loss for items not involving cash:		
Depreciation of equipment	263,627	141,756
Amortization of intellectual property	25,805	25,805
Bad debt reserve	25,253	-
Write down of inventory	20,000	-
Write off of assets	55,667	-
Finder's warrants issuance costs	53,100	-
Change in fair value of Canadian dollar denominated warrants	(94,610)	402,556
Lease liability	62,899	24,512
Stock-based compensation	344,023	598,641
Unrealized foreign exchange gain	(19,774)	-
	(4,439,909)	(4,987,860)
Changes in working capital assets and liabilities:		
Trade and other receivables	(217,413)	(865,159)
Inventory	(2,318,550)	(2,547,805)
Inventory held by distributor	-	173,850
Prepaid expenses and deposits	(107,824)	(165,217)
Trade payables and accrued liabilities	2,383,769	3,557,725
Advances from distributor	-	(465,871)
Deferred revenue	(378,379)	1,124,603
Changes in working capital assets and liabilities	(638,397)	812,126
Cash flows used in operating activities	(5,078,306)	(4,175,734)
Cash flows from investing activities		
Purchase of equipment	(281,577)	(530,529)
Cash flows (used in)provided by investing activities	(281,577)	(530,529)
Cash flows from financing activities		
Issuance of units, net of issuance costs	3,514,979	-
Proceeds from exercise of warrants	172,397	2,984,703
Proceeds from debenture issuance	1,246,338	-
Repayment of finance lease obligation	(3,190)	(3,690)
Cash flows provided by financing activities	4,930,524	2,981,013
Decrease in cash	(429,359)	(1,725,250)
Foreign exchange effect on cash	19,774	(236,742)
Cash, beginning of year	2,396,994	4,358,986
Cash, end of year	$ 1,987,409	$ 2,396,994

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

1. NATURE AND CONTINUANCE OF OPERATIONS

LED Medical Diagnostics Inc. (”LED” or the “Company”) was incorporated under the British Columbia Business Corporations Act on July 17, 2002 as 651192 B.C. Ltd. and changed its name to LED Medical Diagnostics Inc. on August 20, 2003. The Company’s head office, principal address and records office are located at 235 – 5589 Byrne Road, Burnaby, British Columbia, Canada, V5J 3J1. The registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3.

The Company has developed, and markets, a medical device under the trade name VELscope®. The device is used in the dental industry to help identify oral soft tissue abnormalities including those which may be cancerous or precancerous and also to help define appropriate margins for surgical excision. The Company also features its Digital division that provides dentists and oral health specialists with advanced diagnostic imaging products and software.

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

The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing from lenders and shareholders. There can be no assurance that the Company 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 incurred a net and comprehensive loss of $5,175,899 and has negative cash flow from operations of $4,439,909 for the year ended December 31, 2015. As at December 31, 2015 the Company had an accumulated deficit of $43,913,101. The Company’s ability to continue as a going concern is dependent on its available cash, its ability to find new sources of cash and its ability to continue to raise funds to support corporate operations. Consequently, material uncertainties exist which cast significant doubt upon the Company’s ability to continue as a going concern. As at December 31, 2015 and as at the date of approval of these consolidated financial statements, the outcome of these activities is unknown and subject to considerable uncertainty. These consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties or if such adjustments would be material.

2. BASIS OF PRESENTATION

These consolidated financial statements of the Company, approved by the Board of Directors on April 8, 2015, have been prepared in accordance with International Financial Reporting Standards (“IFRS”).These consolidated financial statements have been prepared on the historical cost basis unless otherwise specified in the accounting policies (Note 3). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company recognizes revenue from sales of goods when it has transferred to the buyer the significant risks and rewards of ownership, it has no longer retained continuing managerial involvement to the degree usually associated with ownership nor has effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Principles of consolidation

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

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Ownership Interest	
		December 31, 2015	December 31, 2014
LED Dental Inc.	Canada	100%	100%
LED Dental (U.S.) Ltd.	USA	100%	100%
Essentia Genetics Corp.(inactive)	Canada	100%	-

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Significant accounting judgments, estimates and assumptions

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

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

Allowance for doubtful accounts

Management uses its best estimate of expected returns to estimate a sales return provision. If a reasonable estimate cannot be made, the Company defers revenue and costs relating to the sales at the time the goods are shipped.

Impairment of long-lived assets and patents and intellectual property

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

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

Estimated useful lives of long-lived assets

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

Equity-settled stock-based compensation

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

Warranty provision

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Contingencies

Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company and its subsidiaries. The adequacy of provisions is regularly assessed as new information becomes available.

The Company does not record contingent assets.

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

Revenue recognition

The Company recognizes revenue from product sales when the goods are shipped or delivered and title and risk of loss pass to the customer. Provisions for certain sales incentives and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded.

Sales returns are generally estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns due to dating, competition or other marketing matters are specifically investigated by management and analyzed as part of the accounting for sales returns accruals. The sales returns provision is based on historical return trends by product and by contractual obligations to customers. Sales returns provisions are recorded at full sales value. When new products do not provide sufficient experience for management to reliably estimate future returns, management defers revenue recognition until future returns can be reliably estimated.

During 2014, the Company launched a new product in its Digital division and sufficient product return experience did not exist at the time for management to reliably estimate future returns. The point of installation was determined by management as a necessary event to occur in advance of reducing the probability of product returns to an acceptably low level to commence recognizing revenue. Therefore, revenue was not recognized until completion of installation. During 2015, for the digital product launched in 2014, management determined that sufficient product return experience had been accumulated to enable management to reliably estimate future returns. As a result, management no longer considered it necessary to defer revenue recognition until installation was performed and has thereby prospectively removed the requirement that needed installation be completed for revenue to be recognized.

Determination of cash-generating units ("CGUs")

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

Determination of functional currency

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

Name of Subsidiary	Functional currency ($)
LED Dental Inc.	U.S.
LED Dental (U.S.) Ltd.	U.S.
Essentia Genetics Corp. (inactive)	U.S.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currency translation

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

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition. All of the Company's financial assets are classified as loans and receivables.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within twelve months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive income, except for foreign exchange gains and losses associated with monetary available-for-sale financial assets and impairment losses which are recorded in profit or loss.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the instruments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

Cash and cash equivalents

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

The Company has no cash equivalents as of December 31, 2015 or December 31, 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and equipment

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

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

Depreciation is calculated on a straight-line method to write off the cost of the assets over their estimated useful lives. The depreciation rates applicable to each category of equipment are as follows:

Property and equipment

Office equipment	5 years	straight-line method
Computer equipment	3 years	straight-line method
Manufacturing tooling	2 years	straight-line method
Leasehold improvements	term of lease	straight-line method
Demo equipment	1-3 years	straight-line method

Intangible assets

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

Intangible assets, which consist of acquired patents, intellectual property and related know-how, have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses over their useful lives. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized whenever the carrying amount of the intangible assets exceed their recoverable amount.

Intangible assets are being amortized using the straight-line method over a 13 year period commencing in 2004.

Research and development costs

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

Impairment of non-financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equity

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

From time to time the Company issues units consisting of common shares and common share purchase warrants. The Company estimates the fair value of the warrants based on their market price on the date of the issuance of the units. The residual difference, if any, between the unit price and the fair value of each warrant represents the fair value attributable to each common share. Any transaction costs associated with the issuance of units are apportioned between the common shares and warrants based on their relative fair values.

Deficit includes all current and prior period losses.

Reversal of impairment loss

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Deferred revenue

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

Leases

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

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

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

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Income taxes

Current income tax:

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

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred income tax

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

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

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

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

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

Stock-based payments

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

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

The Company has a Deferred Share Unit Plan ("DSU Plan") for the Company's Directors, Executive Officers and Service Providers. The Company recognizes compensation expense for Deferred Share Units ("DSUs") based on the market price of the Company's stock. A DSU is convertible to shares only, and are valued by reference to the fair value of the equity instruments granted. All of the Company DSUs are equity-settled instruments (See Note 16).

Warrants

All warrants granted are valued using the fair value method which is determined by the Black-Scholes option pricing model with assumptions for risk free interest rates, dividend yields, volatility factors and an expected life of the warrants. As a result of the change in functional currency to U.S. dollars on January 1, 2012, the Company elected to reclassify from equity to liabilities the outstanding Canadian dollar denominated warrants and revalue every period with change in valuation being expensed. Changes in the underlying assumptions can materially affect the fair value estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Research and development tax credits

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

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for its own shares held. Diluted EPS is determined by adjusting the profit attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for its own shares held, for the effects of all dilutive potential common shares. Dilutive EPS has not been calculated as the Company is in a net loss position for the periods resulting in an anti-dilutive quantification.

New Standards and Interpretations Adopted as of January 1, 2015

For the year ended December 31, 2015, the Company has not applied any new and revised IFRSs since the IFRSs that became effective in 2015 were not applicable to the Company.

New Standards and Interpretations Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company is currently assessing the impact of the following standards on the consolidated financial statements and intends to adopt these standards when they become effective.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

IFRS 9 – Financial Instruments

IFRS 9 replaces the current IAS39 - Financial Instruments Recognition and Measurement. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The standards is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16 *Leases*, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor).

All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 *Leases* and, instead, introduces a single lessee accounting model. When applying that model, a lessee is required to recognize:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019 wth early application permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements

4. TRADE AND OTHER RECEIVABLES

		December 31, 2015		December 31, 2014
Trade accounts receivable	**$**	**1,549,658**	$	1,332,454
Goods and services tax receivable		**16,195**		41,239
	$	**1,565,853**	$	1,373,693

At December 31, 2015 and December 31, 2014, no accounts receivable are due beyond one year. The fair value of accounts receivable approximates their carrying value as at December 31, 2015 and December 31, 2014. During the year ended December 31, 2015, the Company has written off accounts receivable of $25,253 (year ended December 31, 2014 - $Nil).

5. INVENTORY

		December 31, 2015		December 31, 2014
VELscope	**$**	**228,211**	$	492,040
Digital Products		**5,173,976**		2,611,596
	$	**5,402,187**	$	3,103,636

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 that inventories are expected to be sold. Inventories are carried at lower of cost or net realizable value. 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. $20,000 of write-down was recorded in 2015 (2014 – Nil). The amount of inventories recognized as cost of goods sold is $8,869,844. Storage and shipping costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

6. DEPOSIT

The Company entered into an eight year lease agreement for premises in Atlanta, Georgia. A requirement of the agreement was for a letter of credit to be issued to the lessor in the amount of $280,000. If the Company is in breach of the terms and conditions of the agreement, the lessor is entitled to the funds being held. If conditions are not breached over the course of the agreement, the restricted cash will be reduced by $120,000 and $90,000 on March 1st and September 1st, 2016, respectively. These funds will be issued to the Company with the remaining balance being held until the duration of the agreement is complete.

7. 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, 2014	**$ 37,957**	**$ 15,446**	**$ 2,767**	**$ 56,170**
Additions	490,762	30,178	10,809	531,749
Disposals	-	(1,569)	-	(1,569)
Balance, December 31, 2014	**$ 528,719**	**$ 44,055**	**$ 13,576**	**$ 586,350**
Additions	219,741	13,939	47,897	281,577
Disposals	(113,034)	-	(2,767)	(115,801)
Balance, December 31, 2015	**$ 635,426**	**$ 57,994**	**$ 58,706**	**$ 752,126**

Accumulated Depreciation

	Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, January 1, 2014	**$ (23,324)**	**$ (6,929)**	**$ (2,767)**	**$ (33,020)**
Depreciation	(132,443)	(9,056)	(256)	(141,755)
Disposals	-	348	-	348
Balance, December 31, 2014	**$ (155,767)**	**$ (15,637)**	**$ (3,023)**	**$ (174,427)**
Depreciation	(245,581)	(11,724)	(6,322)	(263,627)
Disposals	57,367	-	2,767	60,134
Balance, December 31, 2015	**$ (343,981)**	**$ (27,361)**	**$ (6,578)**	**$ (377,920)**

Carrying Value

	Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, December 31, 2015	**$ 291,445**	**$ 30,633**	**$ 52,128**	**$ 374,206**
Balance, December 31, 2014	$ 372,952	$ 28,418	$ 10,553	$ 411,923

8. PATENTS AND INTELLECTUAL PROPERTY

The following table presents details of movement in the carrying value of the patents:

Cost

	Patents
Balance, January 1, 2014	**$ 335,467**
Additions	-
Balance, December 31, 2014	**$ 335,467**
Additions	-
Balance, December 31, 2015	**$ 335,467**

Accumulated Amortization

Balance, January 1, 2014	**$ (273,105)**
Amortization	(25,805)
Balance, December 31, 2014	**$ (298,910)**
Amortization	(25,806)
Balance, December 31, 2015	**$ (324,716)**

Carrying Value

Balance, December 31, 2015	**$ 10,751**
Balance, December 31, 2014	$ 36,557

On August 31, 2003, the Company signed a technology agreement amended on February 10, 2004, for the purchase of certain patents, and the related intellectual property and know-how, in respect of a fluorescence scope system for dermatologic diagnosis. The patents will expire in 2017.

At December 31, 2015, management had assessed the intellectual property and intangible assets for indications that an impairment loss may be occurred. Management concluded that there was no impairment of these assets at December 31, 2015 or December 31, 2014.

9. TRADE PAYABLES AND ACCRUED LIABILITIES

	December 31, 2015	December 31, 2014
Trade payables	**$ 5,128,576**	$ 3,320,842
Accrued liabilities	**1,051,974**	647,493
Warranty provision	**4,371**	6,098
State and Provincial sales tax payable	**500,798**	327,517
	$ 6,685,719	$ 4,301,950

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

10. LEASE OBLIGATIONS AND COMMITMENTS

a) The Company has a finance lease with respect to the purchase of office equipment. The Company has the option to purchase the equipment for a nominal purchase price at the end of the lease. As of December 31, 2015 and December 31, 2014, the Company has future lease payments of $Nil and $3,190, respectively.

b) The Company has operating leases with respect to its operating premises in Vancouver, B.C., and Atlanta, Georgia. Future minimum lease payments as at December 31, 2015 are as follows:

2016	155,738
2017	152,515
2018	157,089
2019	161,789
2020	166,655
2021 and thereafter	244,951
Total future minimum lease payments	**$ 1,038,736**

c) The Company was paying royalties at a rate of 1.5% of VELscope sales to the British Columbia Cancer Agency prior to December 31, 2010. The rate was subsequently revised to 0.75% and retrospectively applied to prior periods resulting in a reversal of previously accrued royalties. During the year ended December 31, 2015, the Company accrued royalties of $10,431. (December 31, 2014- $21,703). As at December 31, 2015, total royalties accrued but not paid was $27,955 (December 31, 2014 – $21,660), which are classified as a component of accrued liabilities.

d) 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. The Company accrued royalties of $30,459 during 2015 and has a total of $33,971 accrued but not paid as of December 31, 2015. Furthermore, 333,334 unvested stock options immediately vested upon execution of this agreement and shall be exercisable until six months following the termination of this agreement. The options expired and were unexercised in 2015.

e) The Company entered into a three year supplier agreement on May 6, 2014 that requires the Company to make minimum annual purchases for the duration of the agreement. The minimum annual purchase requirement is 300 units for each year of the agreement subject to default without penalty. The current unit price is $1,668.

f) The Company entered into a one year, renewable, supplier agreement on May 15, 2015 that requires the Company to make minimum annual purchases for the duration of the agreement. Minimum required purchase would amount to $620,000 EURO.

g) The Company entered into a one year, renewable, supplier agreement on July 31, 2015 that requires the Company to make minimum annual purchases. Minimum required purchase amount is $1,000,000 in sales equipment.

h) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. These matters are subject to inherent uncertainties.

On April 28, 2015, Daniel J. Edelman Inc. ("Edelman") filed a civil claim for alleged unpaid invoices against LED Medical Diagnostics Inc. and LED Dental Inc. ("LED"). Edelman alleges a contract of service dated December 21, 2011, wherein Edelman would perform public relations services on a contract rate of pay and would prepare and deliver a monthly invoice for LED representing the agreed services provided and expenses incurred by Edelman.

Edelman claims that per the contract between the parties, they had delivered monthly invoices to LED representing services rendered, expenses incurred by Edelman and accumulated late fees, the sum of which that has not been paid by LED amounts to CAD $110,792.89 despite demand and given all just discounts. LED has filed a response to the civil claim, denying liability.

11. DEBENTURE

On September 25, 2015 ("The closing date"), the Company issued 50 USD denominated debenture units with a principal amount of $10,000 USD per unit and gross proceeds of $500,000 USD maturing one year from the closing date. Each unit is attached with a 10% coupon and 7,143 common share purchase warrants of the Company at an exercise price of $0.28 USD. These warrants are exercisable at any time up to and including the date which is one year from the closing date. Transaction costs associated with this issuance were $10,020 USD and have been netted against the debenture proceeds received.

On July 22, 2015 ("The closing date"), the Company issued 110 CDN denominated debenture units with a principal amount of $10,000 CDN per unit and gross proceeds of $1,100,000 CDN maturing one year from the closing date. Each unit is attached with a 10% coupon and 5,950 common share purchase warrants of the Company at an exercise price of $0.28 USD. These warrants are exercisable at any time up to and including the date which is one year from the closing date. Transaction costs associated with this issuance were $55,055 CDN ($38,392 USD) and have been netted against the debenture proceeds received.

12. 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.

During the year ended December 31, 2014 and 2013, the Company paid or accrued the following compensation expenses to key personnel of the Company:

	Year ended December 31, 2015	Year ended December 31, 2014
Short-term compensation*	$ 709,731	$ 913,275
Share-based payments	$ 93,722	$ 580,282

(*) The Company entered into a one year consulting agreement (see Note 11d) with the former CEO in which the former CEO would earn royalties equal to 2% of all VELscope sales. Included in short-term compensation are accrued royalties of $30,459 during the year ended December 31, 2015 (year ended December 31, 2014 - $54,845).

During the year ended December 31, 2014, Nil options were awarded to related parties under the Company's stock option plan (2014– 5,000)

13. WARRANTS

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

	December 31, 2015		December 31, 2014	
	Number of Warrants	**Weighted average exercise price (CDN$)**	Number of Warrants	Weighted average exercise price (CDN$)
Warrants outstanding, beginning of year	3,393,667	0.20	18,673,600	0.20
Issued	-	-	-	-
Exercised	(1,060,167)	0.20	(15,274,333)	0.20
Expired	2,333,500	0.20	(5,600)	0.30
Warrants outstanding, end of period	**-**	**-**	**3,393,667**	**0.20**
Warrants exercisable, end of period	**-**	**-**	**3,393,667**	**0.20**

13. WARRANTS (cont).

The following table breaks down the warrant liability at December 31, 2014 of each grant of warrants:

Number of Warrants	Amount	Exercise Price	Expiry Date
3,393,667	162,872	0.20	June 14, 2015
3,393,667	**$ 162,872**	**0.20**	

The following table summarizes the US dollar denominated warrant transactions that occurred during the periods ended:

	December 31, 2015		December 31, 2014	
	Number of Warrants	**Weighted average exercise price (US$)**	Number of Warrants	Weighted average exercise price (US$)
Warrants outstanding, beginning of period	15,771,876	0.50	16,109,887	0.50
Issued	18,254,254	0.23	-	-
Exercised	-	-	(338,011)	0.50
Expired	-	-	-	-
Warrants outstanding, end of period	**34,026,130**	**0.36**	**15,771,876**	**0.50**
Warrants exercisable, end of period	**34,026,130**	**0.36**	**15,771,876**	**0.50**

The following table summarizes information about the Company's warrants outstanding at December 31, 2015:

	Warrants Outstanding		**Warrants Exercisable**	
Exercise prices	**Number Outstanding**	**Weighted Average Remaining Term (Years)**	**Number Exercisable**	**Weighted Average Remaining Term (Years)**
0.20 (US$)	6,573,604	1.90	6,573,604	1.90
0.25 (US$)	10,714,000	1.15	10,714,000	1.15
0.28 (US$)	654,500	0.56	654,500	0.56
0.28(US$)	357,150	0.73	357,150	0.73
0.50 (US$)	15,771,876	0.82	15,771,876	0.82
	34,026,130	**1.13**	**34,026,130**	**1.13**

The following table summarizes information about the Company's warrants outstanding at December 31, 2014:

	Warrants Outstanding		**Warrants Exercisable**	
Exercise prices (CDN$)	**Number Outstanding**	**Weighted Average Remaining Term (Years)**	**Number Exercisable**	**Weighted Average Remaining Term (Years)**
0.20 (CDN$)	3,393,667	0.45	3,393,667	0.45
0.50 (US$)	15,771,876	0.81	15,771,876	0.81
	19,165,543	**0.75**	**19,165,543**	**0.75**

14. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

	Number of common shares	Amount
Outstanding, January 1, 2014	**72,996,008**	**$27,242,071**
Issuance of shares on exercise of CDN warrants	15,274,333	2,815,698
Issuance of shares on exercise of USD warrants	338,011	169,005
Premium on redemption of USD warrants	-	6,370
Settlement of warrant liability upon exercise of CDN warrants	-	3,912,302
Settlement of warrant liability upon expiry of CDN warrants	-	340
Outstanding, December 31, 2014	**88,608,352**	**$34,145,786**
Issuance of shares for cash	22,410,544	2,143,392
Issuance of shares on exercise of CDN warrants	1,060,167	172,397
Settlement of warrant liability upon exercise of CDN warrants	-	68,262
Issuance of shares on exercise of DSU	240,000	-
Outstanding, December 31, 2015	**112,319,063**	**$36,529,837**

2015

On November 25, 2015, the Company announced it has completed a prospectus with a total of 11,805,544 units at an issue price of CDN$0.18 per unit for total gross proceeds of approximately CDN$2.125 million. Each unit is comprised of one common share and one-half of one common share purchase warrant with each warrant entitling the holder to acquire one common share at an exercise price of US$0.20 for a period of 24 months. The value allocated to the warrants was $1.704 million CDN ($1.372 million USD) and the issuance costs were $74,561 CDN ($59,993 USD). They are made up of legal, finders' and regulatory fees.

On February 25, 2015, the Company announced it has completed a non-brokered private placement with an oversubscribed total of 10,605,000 units at an issue price of CDN$0.25 per unit for total gross proceeds of approximately CDN$2.65 million. Each unit is comprised of one common share and one common share purchase warrant with each warrant entitling the holder to acquire one common share at an exercise price of US$0.25 for a period of 24 months. All of the securities issued in connection with the private placement will be subject to a restricted period that expires four months after the issuance date. The value allocated to the warrants was $524,806 CDN ($394,710 USD) and the issuance costs were $208,500 CDN ($157,063 USD). They are made up of legal, finders' and regulatory fees.

2014

The Company did not issue any additional units other than the units issued through exercise of warrants.

15. 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 common shares	Weighted average exercise price in (CDN$)
Outstanding, January 1, 2014	**6,348,000**	**$ 0.36**
Options granted	694,000	0.47
Options forfeited	(380,000)	0.40
Outstanding, December 31, 2014	**6,662,000**	**$ 0.40**
Options granted	1,355,000	0.34
Options forfeited	(857,000)	0.37
Outstanding, December 31, 2015	**7,160,000**	**$0.39**

The options outstanding at December 31, 2015 have an exercises price in the range of $0.28 to $0.54 CDN (2014 - $0.30 to $0.54) and a weighted average contractual life of 2.62 years (2014 – 3.87 years). The amount of options exercisable at the end of 2015 was 5,893,835 (2014 – 5,249,000)

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

Grant date of Share Options	Share Price	Exercise Price	Annual dividend yield of Share options	Volatility	Risk-Free Interest rate	Expected life of the Share options
January 9, 2013	$0.25	$0.30	Nil	136.43%	1.24%	3 years
January 28, 2013	$0.395	$0.30	Nil	136.02%	1.24%	3 years
September 18, 2013	$0.39	$0.40	Nil	149.63%	1.46%	3 years
October 24, 2013	$0.54	$0.54	Nil	146.76%	1.18%	3 years
November 20, 2013	$0.485	$0.49	Nil	144.75%	1.23%	3 years
December 13, 2013	$0.40	$0.49	Nil	142.92%	1.18%	3 years
December 20, 2013	$0.355	$0.45	Nil	142.48%	1.17%	3 years
February 11, 2014	$0.445	$0.46	Nil	135.06%	1.20%	3 years
May 27, 2014	$0.42	$0.45	Nil	118.07%	1.14%	3 years
August 22, 2014	$0.48	$0.49	Nil	125.00%	1.11%	3 years
September 16, 2014	$0.45	$0.45	Nil	124.68%	1.16%	3 years
September 17, 2014	$0.45	$0.435	Nil	124.55%	1.19%	3 years
September 22, 2014	$0.45	$0.44	Nil	124.78%	1.18%	3 years
January 27, 2015	$0.27	$0.28	Nil	113.22%	0.51%	8 years
February 02, 2015	$0.23	$0.25	Nil	113.12%	0.41%	2 years
February 26, 2015	$0.24	$0.25	Nil	112.22%	0.51%	5 years
February 26, 2015	$0.24	$0.25	Nil	112.22%	0.51%	3 years

15. STOCK-BASED PAYMENTS (cont'd)

For the year ended December 31, 2015, the Company recognized $344,023 respectively, of stock-based compensation expense (2014 – $598,641). Forfeiture rate is estimated based upon prior year forfeitures as a percentage of the total amount of options issued.

16. DEFERRED SHARE UNITS

The Company has a DSU Plan for the Company's Directors, Executive Officers and Service Providers ("Eligible Person").

DSU activity is presented below:

	Number of DSUs	Weighted Average exercised price
Outstanding, December 31, 2014	**950,000**	**0.25**
Granted	-	-
Exercised	(240,000)	0.25
Outstanding, December 31, 2015	**710,000**	**0.25**

All DSU's are exercisable as of December 31 2015. The contractual life is dependent upon service provided to the Company. Options expire on December 15 of the 1st calendar year after service is terminated. During the year ended December 31, 2015, the Company recorded an expense of $Nil (2014 – $NIL)

17. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 26% (December 31, 2014 – 26%) to loss before income taxes due to the following:

	December 31, 2015	December 31, 2014
Net loss before income taxes	**$ (5,179,994)**	$ (6,181,130)
Tax recovery at applicable rates	**(1,346,798)**	(1,607,094)
Non-deductible items and other	**317,232**	142,055
Effect of reduction in tax rates	**-**	-
Temporary differences not recognized	**292,702**	1,262,406
State tax	**(4,095)**	-
Foreign currency translation	**-**	3,094
Opening deferred income tax adjustment	**1,185,814**	288,041
Warrants settled in equity	**17,774**	-
Financing fees	**(57,679)**	-
Difference in foreign tax rates	**(309,943)**	(77,227)
Other	**(99,102)**	11,275
Income tax recovery	**$ (4,095)**	$ -

The deferred tax assets have not been recognized in these consolidated financial statements, as management does not consider it more likely than not those assets will be realized in the carry forward period.

17. INCOME TAXES (cont'd)

The composition of the Company's deferred tax assets as at December 31, 2015 and 2014 is as follows

	December 31, 2015	December 31, 2014
Deferred tax assets in relation to:		
Non-capital losses carry forward	**$8,730,099**	$7,578,912
SR&ED pool	**639,428**	639,428
Patents and intellectual property	**143,352**	136,642
Finance lease obligations	**-**	1,581
Warrant liability	**-**	956,770
Property and equipment	**143,735**	127,988
DSU expense not settled	**-**	55,902
Donations	**17,755**	-
Share issue costs	**120,398**	117,466
Deferred tax assets not recognized	**$9,794,767**	$9,614,689

As at December 31, 2015, the Company has net operating loss carry forwards for Canadian purposes aggregating $28,370,058 USD. These losses may be carried forward to apply against future income for tax purposes and will expire, if not utilized as follows:

2026	$ 1,016,157
2027	5,997,187
2028	1,930,960
2029	3,440,058
2030	3,522,960
2031	2,798,767
2032	1,827,876
2033	2,456,871
2034	4,015,768
2035	1,380,963
Net operating loss carry forwards	**$28,387,567**

The Company also has $2,459,338 (CDN $2,754,700) of discretionary deductions relating to its research and development activities. These deductions can be carried forward indefinitely.

At December 31, 2015, the Company also has loss carry forwards for U.S. income tax purposes totalling $5,189,738. These losses may be carried forward to apply against future income for tax purposes and will expire, if not utilized as follows:

2034	1,118,138
2035	4,071,600
Net operating loss carry forwards	**$5,189,738**

18. SEGMENTED INFORMATION

The Company operates in a single geographical segment, being North America, and a single reporting segment, the development and commercialization of medical devices based on its proprietary imaging platform to aid in the detection and treatment of disease in human tissues. In addition, the Company provides dental and oral health specialists with advanced diagnostic imaging products and software.

The Company's operating segment is 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.

19. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

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

The Company considers the items included in shareholders' equity (deficiency) as capital. The amount as of December 31, 2015 is $1,146,877.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.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Classification of financial instruments

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

	December 31, 2015	December 31, 2014
Loans and receivables	-	-
Cash	$ 1,987,409	$ 2,396,994
Receivables	1,565,853	1,373,693
	$ 3,553,262	**$ 3,770,687**

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

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

	December 31, 2015	December 31, 2014
Fair value through profit or loss:		
Warrants	-	162,872
	$ -	**$ 162,872**

	December 31, 2015	December 31, 2014
Other financial liabilities:		
Trades payable and accrued liabilities	$ 6,685,719	$ 4,301,950
Deferred revenues	746,242	1,124,621
Debenture	1,246,338	-
	$ 8,678,299	**$ 5,426,571**

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 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. 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.

Details of the Company's debentures and information about the fair value hierarchy as at December 31, 2015 are as follows:

	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value at December 31, 2015**
Debenture	-	$1,246,338	-	$ 1,246,338
Total	-	$1,246,338	**-**	$ 1,246,338

Details of the Company's warrants and information about the fair value hierarchy as at December 31, 2014 are as follows:

	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value at December 31, 2014**
Warrants	-	$ 162,872	-	$ 162,872
Total	**-**	**$** 162,872	**-**	**$** 162,872

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

The Company measures warrants using the Black-Scholes method, which utilizes the risk-free rate and the stock price volatility since its first publicly traded day to estimate the fair value of warrants. The effects of non-observable inputs are not significant for CDN denominated warrants. There were no transfers between Level 1 and 2 in 2015 or 2014.

Credit Risk

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

The Company monitors collectability of receivables on an on-going basis to determine credit risk. In order to mitigate credit risk, the Company offers credit terms to established customers. Other customers are required to pay in advance or by credit card, prior to shipping of the product. At December 31, 2015, no accounts receivable are due beyond one year.

As at December 31, 2015 and December 31, 2014, the Company's exposure to credit risk for these financial instruments was as follows:

	December 31, 2015	December 31, 2014
Cash	$ 1,987,409	$ 2,396,994
Receivables	1,565,853	1,373,693
	$ 3,553,262	**$ 3,770,687**

Trade accounts receivable balances of $1,362,158 as at December 31, 2015 (December 31, 2014 - $1,332,455) were aged as follows in the below table. It does not include goods and services tax receivable of $16,195 as at December 31, 2014 (December 31, 2014 – $41,239).

	December 31, 2015	December 31, 2014
Current	$ 1,267,418	$ 864,403
31-60 days	$18,946	136,083
Over 60 days	279,489	331,969
	1,565,853	$ 1,332,455

Liquidity risk

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

The contractual maturities of the Company's trade payables as at December 31, 2015 are listed below. Refer to the Note 10 and 11 for other contractual maturities, lease obligations and commitments that are not included in the table below.

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

Trade payables were aged as follows as at December 31, 2015 and December 31, 2014, respectively and do not include accrued liabilities, warranty provision and state and provincial sales tax payable. All trade payables are current liabilities:

	December 31, 2015	December 31, 2014
Current	**$ 2,062,258**	$ 1,909,252
31-60 days	**2,573,223**	569,931
Over 60 days	**493,095**	841,659
	$ 5,128,576	$ 3,320,842

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities at December 31, 2015:

	Within one year	**Between one and five years**
Accounts payable and accrued liabilities	$6,685,719	$
Debenture	1,246,338	-
Deferred revenue	746,242	-
	$ 8,678,299	**$ -**

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

Interest rate risk

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

Due to the limited and short-term nature of these financial instruments, fluctuations in the interest rates will not have a significant impact on their fair value. As at December 31, 2014, the Company had not entered into any derivative contracts to manage this risk.

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States. The Company's functional currency is the U.S. dollar. The Company has not hedged its exposure to currency fluctuations.

The following is a summary of the Company's exposure to currency risk:

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

	December 31, 2015	December 31, 2014
	CDN	CDN
Cash	871,646	100,866
Account Receivable	65,929	65,237
Trade payable and accrued liabilities	(340,513)	(604,200)
Net statement of financial position exposure	**597,062**	**(438,097)**

Assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar against the U.S. dollar would not materially affect the loss from operations.

21. EARNINGS PER SHARE

Profit attributable to ordinary shareholders (basic and diluted)

Earnings per share is calculated using Net Income (Loss)/Average Shares Outstanding.

	December 31, 2015	December 31, 2014
Loss for the year attributable to shareholders	$ 5,175,899	$ 6,181,130
Loss attributable to ordinary shareholders (basic and diluted)	$ 5,175,899	$ 6,181,130

22. EMPLOYEE BENEFITS AND DEPRECIATION

The Company has incurred $4,065,994 (2014 – $ 4,560,172) of employee benefits and depreciation and amortization of $289,433 (2014 – $167,561). Employee benefits include wages, commissions, payroll taxes, share-based payments and employee benefits.

23. SUBSEQUENT EVENTS

On February 5, 2016, the company issues 3,225,000 stock options priced at $0.125 USD ($0.18 CAD) to its Directors, Officers and Employees. Vesting terms are immediate to three and one half years from issuance.