LEDMD
LED MEDICAL DIAGNOSTICS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(UNAUDITED, EXPRESSED IN U.S. DOLLARS)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Dr. David Gane
Chief Executive Officer
May 24, 2018

LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Financial Position

(Expressed in U.S. Dollars)

	Notes		**March 31, 2018**		December 31, 2017
Assets					
Current assets					
Cash		**$**	**1,433,006**	$	2,425,468
Trade and other receivables	5		**1,909,267**		1,578,371
Inventory	6		**1,161,325**		778,939
Prepaid expenses and deposits	7		**395,683**		433,272
Total current assets			**4,899,281**		5,216,050
Non-current assets					
Property and equipment	8		**152,797**		152,497
Intangible assets	9		**7,411,512**		7,620,287
Goodwill	10		**1,868,130**		1,868,130
		$	**14,331,720**	$	14,856,964
Liabilities and shareholders' equity					
Current liabilities					
Trade payables and accrued liabilities	11	**$**	**2,371,192**	$	2,191,815
Deferred revenue			**739,638**		892,570
Debenture	13		**3,192,906**		2,152,841
Deferred consideration on acquisition	4		**1,386,111**		1,200,000
Total current liabilities			**7,689,847**		6,437,226
Non-current liabilities					
Debenture	13		**2,704,679**		3,718,452
Warrants	15		**899,474**		1,372,122
Lease liability			**55,737**		61,011
Deferred consideration on acquisition	4		**-**		450,000
Total liabilities			**11,349,737**		12,038,811
Shareholders' equity					
Share capital	16		**50,944,234**		50,944,234
Stock-based payment reserve	17		**2,887,940**		2,799,476
Warrants reserve	15		**381,374**		381,374
Accumulated other comprehensive income			**474,458**		474,458
Deficit			**(51,706,023)**		(51,781,389)
			2,981,983		2,818,153
		$	**14,331,720**	$	14,856,964

Nature of Operations and Going Concern (Note 1)

Lease Obligations and Commitments (Note 12)

Subsequent Events (Note 24)

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

Approved on behalf of the Board of Directors:

____________________Chief Executive Officer　　　　____________________Director

Dr. David Gane　　　　James Topham

LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in U.S. Dollars)
For the three months ended March 31, 2018 and 2017

	Notes		March 31, 2018		March 31, 2017
Revenues		**$**	**3,331,847**	$	2,098,417
Cost of goods sold			**1,177,500**		1,069,565
			2,154,347		1,028,852
Expenses					
Sales and marketing	23		**1,309,388**		983,311
Research and development	23		**300,825**		161,997
Administration	23		**517,838**		569,835
Stock-based compensation	17		**88,464**		11,442
Depreciation and amortization	8		**225,473**		64,655
			2,441,988		1,791,240
Operating loss			**(287,641)**		(762,388)
Other (income)/expenses					
Change in fair value of Canadian dollar denominated warrants	15		**(472,648)**		216,681
Foreign exchange (gain) loss			**(118,868)**		(12,602)
Interest			**228,509**		121,494
			(363,007)		325,573
Net profit (loss) before income taxes			**75,366**		(1,087,961)
Income tax recovery			**-**		-
Net profit (loss) and comprehensive loss for the year		**$**	**75,366**	$	(1,087,961)
Profit (Loss) per share – basic and diluted	22	**$**	**0.00**	$	(0.04)
Weighted average number of shares outstanding – basic and diluted			**37,914,636**		25,635,819

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

LEDMD LED MEDICAL DIAGNOSTICS INC.

LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in U.S. Dollars)

For the three months ended March 31, 2018 and 2017

	Number of Shares	Share Capital	Stock-based Payments Reserves	Warrants Reserve	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity (Deficiency)
Balance, January 1, 2017	**11,642,852**	**$40,933,332**	**$2,171,196**	**$1,819,396**	**($49,286,374)**	**$474,458**	**($3,887,992)**
Shares issued pursuant to private placement	22,071,154	10,085,814	-	-	-	-	10,085,814
Share issuance costs	-	(724,286)	-	-	-	-	(724,286)
Subscriber warrants issued pursuant to private placement	-	(2,087,432)	-		-	-	(2,087,432)
Finder Warrants issued pursuant to private placement	-	(250,873)	-	250,873	-	-	-
Shares issued with debenture financing	244,375	28,924	-	-	-	-	28,924
Finder warrants issued with debenture financing	-	-	-	7,426	-	-	7,426
Shares issued as settlement on the purchase of Apteryx	3,385,840	1,800,000	-	-	-	-	1,800,000
Settlement of share capital upon expiry of unexercised warrants	-	1,379,829	-	(1,379,829)	-	-	-
Stock based compensation	-	-	11,442	-	-	-	11,442
Net loss	-	-	-	-	(1,087,961)	-	(1,087,9612)
Balance, March 31, 2017	**37,344,221**	**$51,165,308**	**$2,182,638**	**$697,866**	**($50,374,335)**	**$474,458**	**$4,145,935**
Balance, December 31, 2017	**37,914,636**	**$50,944,234**	**$2,799,476**	**$381,374**	**$(51,781,389)**	**$474,458**	**$2,818,153**
Stock based compensation	-	-	88,464	-	-	-	88,464
Net profit	-	-	-	-	75,366	-	75,366
Balance, March 31, 2018	**37,914,636**	**$50,944,234**	**$2,887,940**	**$381,374**	**($51,706,023)**	**$474,458**	**$2,981,983**

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

LED MEDICAL DIAGNOSTICS INC.

LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Cash Flow

(Expressed in U.S. Dollars)

For the three months ended March 31, 2018 and 2017

		March 31, 2018	March 31, 2017
Cash flows from operating activities			
Net profit (loss) for the year	**$**	**75,366**	(1,087,961)
Adjustments to net loss for items not involving cash:			
Depreciation and amortization		**225,473**	43,191
Change in fair value of Canadian dollar denominated warrants		**(472,648)**	216,681
Lease liability		**(5,274)**	(27,105)
Stock-based compensation		**88,464**	11,442
Unrealized foreign exchange loss		**129,963**	(12,602)
Fair value accretion		**95,810**	
		137,154	(856,354)
Changes in working capital assets and liabilities:			
Trade and other receivables		**(330,896)**	(218,294)
Inventory		**(382,386)**	7,408
Prepaid expenses and deposits		**37,589**	8,350
Trade payables and accrued liabilities		**179,377**	(571,372)
Deferred revenue		**(152,932)**	270,921
Changes in working capital assets and liabilities		**(649,248)**	(502,987)
Interest paid		**(69,518)**	-
Cash flows used in operating activities		**(581,612)**	(1,359,341)
Cash flows from investing activities			
Purchase of Apteryx, net of cash acquired		**-**	(10,172,279)
Purchase of equipment		**(16,998)**	(62,284)
Cash flows used in investing activities		**(16,998)**	(10,234,563)
Cash flows from financing activities			
Issuance of units, net of issuance costs		**-**	9,397,878
Issuance of units as consideration on purchase of Apteryx			1,800,000
Payment of deferred consideration		**(263,889)**	1,650,000
Proceeds from debenture issuance		**-**	764,267
Cash flows provided by financing activities		**(263,889)**	13,612,145
Increase (Decrease) in cash		**(862,499)**	2,018,241
Foreign exchange effect on cash		**(129,963)**	12,602
Cash, beginning of year		**2,425,468**	874,567
Cash, end of year	**$**	**1,433,006**	$ 2,905,410

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 and principal address are located at 810 – 580 Hornby Street, British Columbia, Canada, V6C 3B6. The registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3.

The Company 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 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.

On February 10, 2017, the Company acquired 100% of the common shares of Apteryx, Inc. ("Apteryx"). Apteryx is a custom software development company located in Akron, Ohio specializing in medical and dental image processing, data encryption and security, database, data conversion and distributed systems.

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

The Company incurred a net and comprehensive profit of $75,366 and has negative cash flow from operations of $581,612 for the three months ended March 31, 2018. As at March 31, 2018, the Company had an accumulated deficit of $51,706,023. Management assesses the Company's ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. Material uncertainties have been identified which may cast significant doubt upon the Company's ability to continue as a going concern. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.

In assessing whether the going concern assumption was appropriate, management considered all relevant information available about the future, which was at least, but not limited to, the 12-month period from the date of this report. The following is considered in evaluating the going concern of the entity pertaining to the financial statements as at March 31, 2018:

- The Company has US$5.9 million of debentures and unpaid interest outstanding at March 31, 2018 of which US$3.2 million is payable over the next 12 months.
- The Company also has US$1.38 million in deferred cash consideration for the Apteryx acquisition outstanding at March 31, 2018 which is due within the next 12 months. The final payment of $450,000 is due February 10, 2019 and can be either cash or share consideration at the Company's discretion. As noted in Subsequent Events, Note 24, a revised payment schedule for the deferred consideration has been agreed. See Note 24 for further details.
- The Company has a history of operating losses since inception and not achieving its revenue and cash flow objectives for its annual fiscal plans approved by the board of directors.
- The Company's forecasted future cash flows are not adequate to meet its debenture, deferred consideration and interest payment obligation over the next 12 months.
- The Company has relied on equity and debt financings to fund its operating losses. Although the Company has a good track record for raising financing there is no guarantee it will be successful in its efforts to raise additional financing or if financing is available, that it will be on terms that are acceptable to the Company.

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

The assessment of the Company's ability to execute its strategy and fund future working capital requirements involves significant judgement. Estimates and assumptions regarding future operating costs, revenue and profitability levels and general business and customer conditions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As at March 31, 2018 and as at the date of approval of these consolidated financial statements, the outcome of these activities is unknown and subject to considerable uncertainty. These consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties or if such adjustments would be material.

2. BASIS OF PRESENTATION

Statement of Compliance

These interim condensed consolidated financial statements, which have been approved by the Board of Directors on May 23, 2018, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These interim condensed consolidated financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company's annual financial statements as at and for the year ended December 31, 2017 (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 December 31, 2017 (which were prepared in accordance with International Financial Reporting Standards, or "IFRS").

3. SIGNIFICANT ACCOUNTING POLICIES

New Standards Adopted

The Company applied, for the first time, IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 – Financial Instruments: Classification and Measurement

IFRS 9 - Financial Instruments replaces the current IAS 39 Financial Instruments Recognition and Measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. The Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. The Company has evaluated the impact on the financial statements of IFRS 9 and concluded there was no impact to the financial statements.

Financial Assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets the Company has classified and measured its financial assets as described below:

- Cash and cash equivalents are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as Held for Trading.
- Short-term investments are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as Available for Sale.
- Trade and other receivables are classified as financial assets at fair value through profit or loss and measured at fair value during the respective period until the final settlement price is determined. Once the final settlement price is determined, trade receivables are classified as financial assets measured at amortized cost. Previously under IAS 39, Trade and other receivables were classified as Loans and Receivables measured at amortized cost.
- Loan to customer is classified as a financial asset measured at amortized cost. Previously under IAS 39, this amount was classified as Loans and Receivables measured at amortized cost.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company's financial assets on the transition date.

Financial Liabilities

Financial liabilities are recognized initially at fair value and in the case of financial liabilities not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. Therefore, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities. Trade and other payables are classified as financial liabilities to be subsequently measured at amortized cost.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers. The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company adopted IFRS 15 using the full retrospective transition method of adoption on January 1, 2018. The Company has performed a review of existing contracts and has determined that there is no material impact on the comparative figures for 2017 in the Company's unaudited interim consolidated financial statements.

The Company generates revenue from the sale of goods as well as professional service contracts, subscriptions to cloud based software, perpetual software license fees, and related maintenance and service fees.

Revenue is allocated to the respective performance obligations based on relative transaction prices and is recognized as goods or services are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the goods transferred or services delivered. Contract modifications are accounted for prospectively or as a cumulative catch-up adjustment depending on the nature of the change. Where the amount of goods and services delivered to the customer corresponds directly to the amount invoiced, the Company recognizes revenue equal to what it has the right to invoice.

The Company makes judgments with respect to: determining whether the promised goods and services are considered distinct performance obligations by considering the relationship of such promised goods and services; allocating the transaction price for each distinct performance obligation identified through stand-alone selling price and evaluating when a customer obtains controls of the goods or service promised.

Product Revenue Recognition

Prior to the adoption of IFRS 15, revenue from the sale of its products to customers was recognized upon either the transfer of title or upon shipment of the hardware product to the customer so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. 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. Determining whether the goods and services are considered distinct performance obligations may require significant judgment. The adoption of IFRS 15 did not have an impact on the timing or amount of revenue recognition.

The Company generally provides warranties for general repairs of defects that existed at the time of sale, as required by law, for production hardware products. As such, most warranties are assurance-type warranties under IFRS 15, which the Company accounts for under IAS 37- Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15.

Software Revenue Recognition

The Company currently sells software licenses of its legacy software solution, EIS either on a perpetual basis or on a term-based basis as well as post contract customer support ("PCS").

Prior to the adoption of IFRS 15, the Company recognized revenue from the sale of software licenses on perpetual basis upon the transfer of title to the customer, so long as persuasive evidence of an arrangement existed, delivery had occurred, the fee is fixed or determinable, and collectability was reasonably assured. The Company used the residual method to recognize revenue on delivered elements when a license agreement included one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements existed. If an undelivered element for the arrangement existed under the license arrangement, revenue related to the undelivered element was deferred based on Vendor Specific Objective Evidence (“VSOE”) of the fair value of the undelivered element. If the fair value did not exist for all undelivered elements, all revenue was deferred until sufficient evidence existed or as elements were delivered. For term-base licenses, the Company recognized revenue over the term, which usually was one (1) year. PCS revenue associated with software licenses was recognized rateably over the term of the PCS period, which typically was one year. Any unrecognized revenue is recorded in deferred revenue.

Under IFRS 15, the Company would recognize revenue from the sale of term-based licenses at the time the software is delivered to customer subject to all other criteria of revenue recognition being satisfied at this time since transfer of control to the customer occurs with no further obligation from the Company. There would be no impact on revenue recognition on the sale of perpetual licenses and PCS with the adoption of IFRS 15.

<u>Services Revenue Recognition</u>

The Company enters into contracts to provide services on the following basis:

- Time & Materials - services consist of revenues from software modification, consulting, implementation, training and integration services. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of these services.

- Fixed Price – arrangements to render specific consulting and software modification services which tend to be more complex since these services are essential to the functionality of other elements in the arrangement.

Prior to the adoption of IFRS 15, the Company recognized service revenue from time and material arrangements at the time such services are rendered by the Company so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. The Company recognized service revenue from fixed price arrangements using the percentage of completion method and is calculated based on actual hours incurred compared to the estimated total hours for the services under the arrangement, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

Under IFRS 15, the Company concluded that revenue from services will continue to be recognized over time, using an input method to measure progress towards complete satisfaction of the service similar to the previous accounting policy, because the customer simultaneously receives and consumes the benefits provided by the Company. The adoption of IFRS 15 did not have an impact on the timing or amount of revenue recognition.

<u>Impact on Adoption of IFRS 15</u>

The Company has evaluated the impact on the financial statements of IFRS 15 and concluded that there was no material impact to the financial statements.

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 16 – Leases

IFRS 16 – Leases will replace IAS 17 Leases. The new standard specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The standard was issued in January 2017 and is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

(Expressed in U.S. Dollars)

4. ACQUISITION OF APTERYX

On February 10, 2017, the Company acquired 100% of the common shares of Apteryx, Inc ("Apteryx") for aggregate consideration of US$10,700,326. The fair value of the total consideration paid was US$10,660,584.

The Company accounted for the acquisition using the acquisition method and the results of Apteryx's operations have been included in the consolidated financial statement from the date of the acquisition.

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

The allocation of the purchase price of the net identifiable assets based on their estimated fair values at the date of acquisition is as follows:

ASSETS		
Cash	$	465,562
Accounts receivable		484,633
Prepaid expenses		3,571
Property & equipment		61,156
Acquired software technology		6,780,000
Customer base		960,000
Patents		470,000
Brand		141,000
	$	9,365,922
LIABILITIES		
Accounts payable & accrued liabilities		221,286
Deferred Revenue		352,182
	$	573,468
Total identifiable net assets	$	8,792,454
Goodwill on acquisition		1,868,130
Purchase consideration	**$**	**10,660,584**

The accounts receivable and prepaid expense fair value was equal to its contractual value, and all amounts were expected to be collected, as applicable.

The Company acquired the following in property, plant and equipment:

Furniture and fixtures	$	11,064
Equipment		50,092
	$	**61,156**

The Company incurred acquisition costs of $365,125, which were expensed through the statement of income under professional fees expense in the year they occurred. This amount was comprised of due diligence, filing, legal and accounting costs.

(Expressed in U.S. Dollars)

4. ACQUISITION OF APTERYX (cont'd)

The fair value of the purchase consideration is comprised of the following:

Cash	$	6,987,362
Deferred Consideration		1,610,258
Common shares 3,385,840 with a value of $0.80 CND per share ($2,708,672 CND)		2,062,964
Total consideration paid	**$**	**10,660,584**

The Company paid US$6,987,362 in cash and issued 3,385,840 common shares of the Company to the seller at CDN$0.80, representing US$2,062,964 of value. An additional US$1.2 million of the purchase price will be paid in cash tranches over 18 months. The final payment of US$450,000 will be paid in common shares of the Company or in cash at the Company's option, 24 months from closing. Deferred consideration is recorded at fair market value by calculating the present value of the cash flow.

The Company had one year from the date of acquisition to prepare the purchase price allocation. Any adjustments to consideration, were booked in the period when the purchase price allocation was completed.

The Company closed a series of financings related to the acquisition for gross proceeds of approximately CDN$14.4 million. The Company completed a private placement of 22,071,154 equity units of the Company (the "Equity Units") for gross proceeds of approximately CDN$13.3 million. (refer to Note 16). The Company also issued senior secured debentures with a principal amount of CDN$1,150,000 maturing 24 months from the closing date. The debenture is attached with a 12% coupon and 2,443,750 common shares of the Company. (Refer to Note 13).

5. TRADE AND OTHER RECEIVABLES

		March 31, 2018		December 31, 2017
Trade accounts receivable	**$**	**1,865,979**	$	1,557,714
Goods and services tax receivable		**43,288**		20,657
	$	**1,909,267**	$	1,578,371

During the three months ended March 31, 2018, the Company has written off accounts receivable of $Nil (year ended December 31, 2017 - $ Nil).

6. INVENTORY

		March 31, 2018		December 31, 2017
VELscope®	**$**	**206,333**	$	142,822
Digital products		**954,992**		636,117
	$	**1,161,325**	$	778,939

Inventory is valued at the lower of cost and net realizable value. Cost includes the costs of purchases net of vendor allowances. The Company estimates net realizable value as the amount at which inventories are expected to be sold. 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. Storage and shipping costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

(Expressed in U.S. Dollars)

7. DEPOSIT

In 2014, 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. The restricted cash was reduced by $120,000 in March 2016, and $90,000 in September 2016. These funds have been returned to the Company with the remaining balance being held until the duration of the agreement is complete. As of March 31, 2018, the Company has complied with the terms and conditions of the agreement and the letter of credit has been reduced to $70,000.

8. 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, 2017	**$ 563,451**	**$ 61,781**	**$ 58,706**	**$ 683,938**
Additions	9,581	15,286	975	25,842
Additions from acquisition	11,063	50,093	-	61,156
Disposals	-	-	-	-
Balance, December 31, 2017	**$ 584,095**	**$ 127,160**	**$ 59,681**	**$ 770,936**
Additions	16,998	-	-	16,998
Disposals	-	-	-	-
Balance, March 31, 2018	**$ 601,093**	**$ 127,160**	**$ 59,681**	**$ 787,934**

Accumulated Depreciation

	Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, January 1, 2017	**$ 454,730**	**$ 38,298**	**$ 14,536**	**$ 507,564**
Depreciation	71,426	31,453	7,996	110,875
Disposals	-	-	-	-
Balance, December 31, 2017	**$ 526,156**	**$ 69,751**	**$ 22,532**	**$ 618,439**
Depreciation	8,157	6,542	1,999	16,698
Disposals	-	-	-	-
Balance, March 31, 2018	**$ 534,313**	**$ 76,293**	**$ 24,531**	**$ 635,137**

Carrying Value

	Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, March 31, 2018	**$ 66,780**	**$ 50,867**	**$ 35,150**	**$ 152,797**
Balance, December 31, 2017	**$ 57,939**	**$ 57,409**	**$ 37,149**	**$ 152,497**

(Expressed in U.S. Dollars)

9. INTANGIBLE ASSETS

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

Cost

	Acquired Software Technology	Customer Base	Patents	Brand	Total
Balance, January 1, 2017	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Additions from acquisition	6,780,000	960,000	470,000	141,000	8,351,000
Disposals	-	-	-	-	-
Balance, December 31, 2017	**$ 6,780,000**	**$ 960,000**	**$ 470,000**	**$ 141,000**	**$ 8,351,000**
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance, March 31, 2018	**$ 6,780,000**	**$ 960,000**	**$ 470,000**	**$ 141,000**	**$ 8,351,000**

Accumulated Amortization

	Acquired Software Technology	Customer Base	Patents	Brand	Total
Balance, January 1, 2017	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Amortization	593,250	84,000	41,125	12,338	730,713
Balance, December 31, 2017	**$ 593,250**	**$ 84,000**	**$ 41,125**	**$ 12,338**	**$ 730,713**
Amortization	169,500	24,000	11,750	3,525	208,775
Balance, March 31, 2018	**$ 762,750**	**$ 108,000**	**$ 52,875**	**$ 15,863**	**$ 939,488**

Carrying Value

	Acquired Software Technology	Customer Base	Patents	Brand	Total
Balance, March 31, 2018	**$ 6,017,250**	**$ 852,000**	**$ 417,125**	**$ 125,137**	**$ 7,411,512**
Balance, December 31, 2017	$ 6,186,750	$ 876,000	$ 428,875	$ 128,662	$ 7,620,287

For the purpose of the annual impairment testing, Brand is allocated to Apteryx, the CGU in which Brand belongs. The Company assesses Brand and Goodwill together as part of the annual impairment test for Apteryx. The impairment test performed resulted in no impairment of intangible assets as at March 31, 2018.

10. GOODWILL

	Goodwill
Balance, January 1, 2017	$ -
Acquired through business combination	1,868,130
Balance, December 31, 2017	**$ 1,868,130**
Acquired through business combination	-
Balance, March 31, 2018	**$ 1,868,130**

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

(Expressed in U.S. Dollars)

11. TRADE PAYABLES AND ACCRUED LIABILITIES

	March 31, 2018	December 31, 2017
Trade payables	$ 1,239,861	$ 761,710
Accrued liabilities	744,771	947,998
State and provincial sales tax payable	386,560	482,107
	$ 2,371,192	$ 2,191,815

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.

12. LEASE OBLIGATIONS AND COMMITMENTS

a) The Company has operating leases with respect to its operating premises in Vancouver, B.C., and Atlanta, Georgia. Future minimum lease payments as at March 31, 2018 are as follows:

2018	228,233
2019	266,357
2020	258,040
2021	258,040
2022	23,100
Total future minimum lease payments	**$ 1,033,769**

b) On August 1, 2014, the Company entered into a one-year consulting agreement ending July 31, 2015 with the former CEO of the Company whereby the former CEO would be paid CDN$295,000 annually and will receive royalties of 2% of all VELscope® sales until January 1, 2018. As this agreement has now concluded, the Company did not accrue any further royalties during the three months ended March 31, 2018 (December 31, 2017 - $21,452) and made payments of $7,950 (three months ended March 31, 2017 - $NIL). As at March 31, 2018 total royalties accrued but not paid was $42,550 (December 31, 2017 - $50,500) which was classified as a component of accrued liabilities.

c) 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. To date, the Company is aware of one claim for unpaid services plus interest. Subsequent to March 31, 2018, the claim was settled for a sum of CDN$75,000 (US$59,651) which has been accrued at March 31, 2018.

13. DEBENTURE

On July 22, 2015 (the "closing date"), the Company issued senior secured debentures with a principal amount of CDN$1,100,000 (US$827,365) maturing 12 months from the closing date. The debenture is attached with a 10% coupon and 65,450 common share purchase warrants of the Company at an exercise price of US$2.80. These warrants are exercisable at any time up to and including one year from the closing date. Transaction costs associated with this issuance were CDN$55,055 (US$38,392) and have been netted against the debenture proceeds received. Subsequent to the expiry of the original term and on October 7, 2017 (the "extension date"), the Company extended the terms by five years and increased the interest from 10% to 13%. The first year of interest totaling CDN$133,528 (US$103,540) has been accrued and is payable at maturity 5 years from the extension date. The Company issued 65,481 common shares of the Company as consideration for the amendments. Accrued interest from the extension date to March 31, 2018 is CDN$212,514 (US$164,787).

(Expressed in U.S. Dollars)

13. DEBENTURE (cont'd)

On September 25, 2015 (the "closing date"), the Company issued senior secured debentures with a principal amount of US$500,000 maturing 12 months from the closing date. The debenture is attached with a 10% coupon and 35,715 common share purchase warrants of the Company at an exercise price of US$2.80. These warrants are exercisable at any time up to and including one year from the closing date. Transaction costs associated with this issuance were US$10,020 and have been netted against the debenture proceeds received. Subsequent to the expiry of the original term and on October 7, 2017 (the "extension date"), the Company extended the terms by five years and increased the interest rate from 10% to 13%. The first year of interest totaling US$60,694 has been accrued and is payable at maturity 5 years from the extension date. The Company issued 40,464 common shares of the Company as consideration for the amendments. Accrued interest from the extension date to March 31, 2018 is US$96,598.

On July 6, 2016 (the "closing date"), the Company issued senior secured debentures with a principal amount of CDN$385,000 (US$296,885) maturing 12 months from the closing date. The debenture is attached with a 13% coupon and 25,000 common shares of the Company. Transaction costs associated with this issuance were CDN$28,952 (US$20,556) and have been netted against the debenture proceeds received. Subsequent to the expiry of the original term and on July 7, 2018 (the "extension date"), the Company extended the terms until February 10, 2019 and decreased the interest rate from 13% to 12%. The first year of interest totaling CDN$50,050 (US$38,810) has been accrued and is payable at maturity on February 10, 2019. The Company issued 39,167 common shares of the Company as consideration for the amendments. Accrued interest from the extension date to March 31, 2018 is CDN$33,479 (US$25,960).

On October 7, 2016 (the "closing date"), the Company issued senior secured debenture with a principal amount of CDN$500,000 (US$380,875) maturing 24 months from the closing date. The debenture is attached with a 12% coupon and 75,000 common shares of the Company. Transaction costs associated with this issuance were CDN$48,340 (US$36,825) and have been netted against the debenture proceeds received. Accrued interest at March 31, 2018 is CDN$90,000 (US$69,788).

On December 22, 2016 (the "closing date"), the Company issued senior secured debenture with a principal amount of CDN$800,000 (US$594,960) maturing 24 months from the closing date. The debenture is attached with a 12% coupon and 170,000 common shares of the Company. Transaction costs associated with this issuance were CDN$81,548 (US$60,647) and have been netted against the debenture proceeds received. Accrued interest at March 31, 2018 is CDN$122,667 (US$95,118).

On February 10, 2017 (the "close date"), the Company issued senior secured debentures with a principal amount of CDN$1,150,000 (US$875,857) maturing 24 months from the closing date. The debenture is attached with a 12% coupon and 244,375 common shares of the Company. The Company issued 35,200 finder's warrants (the "Finder's Warrants") to arm's length finders. Transaction costs associated with this issuance were CDN$35,288 (US$26,876) and have been netted against the debenture proceeds received. Accrued interest at March 31, 2018 is CDN$34,500 (US$26,752).

On October 30, 2017 (the "closing date"), the Company issued second secured debentures with a principal amount of CDN$2,500,000 (US$1,938,690), maturing 24 months from the closing date. The debenture is attached with a 12% coupon and 531,250 common shares of the Company. The Company also issued 88,800 finder's warrants (the "Finder's Warrants") to arm's length brokers. Each Finder's Warrant is non-transferrable and exercisable at an exercise price of CDN$1.00 at any time up to and including the date which is 24 months from the closing date. Transaction costs associated with this issuance were CDN $232,032 (US$179,935) and have been netted against the debenture proceeds received. Accrued interest at March 31, 2018 is CDN$75,000 (US$58,156).

14. 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 periods ended March 31, 2018 and 2017, the Company paid or accrued the following compensation expenses to key personnel of the Company:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Short-term compensation	**$ 187,939**	$ 187,372
Stock-based payments	**$ 58,631**	$ -

(Expressed in U.S. Dollars)

15. WARRANTS

On November 30, 2017, the Company completed the consolidation of its common shares on the basis of 10 pre-consolidation common shares for 1 post-consolidation common share. As a result, all outstanding warrant information presented has been retroactively adjusted on a 10 to 1 basis.

On February 10, 2017, the Company completed a private placement of equity units consisting of one common share and one-half of one common share warrant (the "Subscribers' Warrants"). The Company issued 11,035,553 Subscriber's Warrants with each warrant entitling the holder to acquire one common share at an exercise price of CDN$1.00 for a period of 24 months. The Subscriber Warrants were valued at fair market value using the Black-Sholes pricing model at a value of US$2,965,366 and accounted for on the balance sheet as a derivative liability. The Subscriber Warrants are revalued every period with the change being recorded as income or expense. The mark to market adjustment for the Subscriber Warrants for the three months ended March 31, 2018 was $472,648 (three months ended March 31, 2017 - $743,448).

The Company also issued 1,326,286 finder's warrants (the "Finders' Warrants") to an arm's length finder as part of the private placement. Each Finders' Warrants is non-transferable and exercisable into one common share at an exercise price of CDN$1.00 for a period of 24 months. The Finders' Warrants were valued at fair market value using the Black-Scholes pricing model at a value of US$356,386.

On February 10, 2017, the Company issued 35,200 finder's warrants to arm's length finders as part of a debenture financing. Each Finder's Warrant is non-transferrable and exercisable at an exercise price of CDN$1.00 for a period of 24 months from the closing date. The fair value of the Finder's Warrants was calculated using the Black-Scholes pricing model and was valued at US$7,426.

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

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

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

	March 31, 2018		December 31, 2017	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
		(CDN$)		(CDN$)
Warrants outstanding, beginning of year	12,485,839	1.00	-	-
Issued	-	-	12,485,839	1.00
Exercised	-	-	-	-
Expired	-	-	-	-
Warrants outstanding, end of period	**12,485,839**	**1.00**	**12,485,839**	**1.00**
Warrants exercisable, end of period	**12,485,839**	**1.00**	**-**	**-**

(Expressed in U.S. Dollars)

15. WARRANTS (cont'd)

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

	March 31, 2018		December 31, 2017	
	Number of Warrants	**Weighted Average Exercise Price**	Number of Warrants	Weighted Average Exercise Price
		(US$)		(US$)
Warrants outstanding, beginning of period	-	-	1,724,260	3.60
Issued	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	(1,724,260)	3.60
Warrants outstanding, end of period	**-**	**-**	**-**	**-**
Warrants exercisable, end of period	**-**	**-**	**-**	**-**

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

	Warrants Outstanding		**Warrants Exercisable**	
Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Term (Years)**	**Number Exercisable**	**Weighted Average Remaining Term (Years)**
CDN$1.00	12,485,839	0.87	12,485,839	0.87
	12,485,839	**0.87**	**12,485,839**	**0.87**

The following table summarizes information about the Company's warrants outstanding at December 31, 2017:

	Warrants Outstanding		**Warrants Exercisable**	
Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Term (Years)**	**Number Exercisable**	**Weighted Average Remaining Term (Years)**
CDN$1.00	12,485,839	1.16	12,485,839	1.16
	12,485,839	**1.16**	**12,485,839**	**1.16**

(Expressed in U.S. Dollars)

16. SHARE CAPITAL

On November 30, 2017, the Company completed the consolidation of its common shares on the basis of 10 pre-consolidation common shares for 1 post-consolidation common share. As a result, all outstanding common share, option and deferred share unit information presented has been retroactively adjusted on a 10 to 1 basis.

Authorized share capital

Unlimited number of common shares without par value

	Number of Common Shares (Post Consolidation)		Amount
Outstanding, January 1, 2017	**11,642,851**	**$**	**40,933,332**
Shares issued pursuant to private placement	22,071,154		10,085,814
Share issuance costs	-		(724,288)
Subscriber warrants issued pursuant to private placement	-		(2,965,366)
Finder warrants issued pursuant to private placement	-		(356,386)
Shares issued as settlement on the purchase of Apteryx	3,385,840		2,062,964
Shares issued with debenture financing	814,792		88,768
Settlement of share capital upon expiry of unexercised warrants	-		1,819,396
Rounding adjustment due to share consolidation	(1)		
Outstanding, December 31, 2017	**37,914,636**	**$**	**50,944,234**
Shares issued	-		-
Outstanding, March 31, 2018	**37,914,636**	**$**	**50,944,234**

On February 10, 2017, the Company completed a private placement of 22,071,154 equity units (the “Equity Units’) at an issue price of CDN$0.60 per unit for total gross proceeds of approximately CDN$13.2 million (US$10.1 million). The Equity Units comprised of one common share and one-half of one common share purchase warrant (the “Subscribers’ Warrants”) with each warrant entitling the holder to acquire one common share at an exercise price of CDN$1.00 for a period of 24 months. Additionally, the Company issued 1,326,286 finder’s warrants (the “Finders’ Warrants”) to an arm’s length finder. (Refer to note 15). The company paid the issuance costs of CDN$950,988 (US$724,286) relating to legal, finders’ and regulatory fees.

The Company also issued shares and finder’s warrants as part of the debenture financing (Refer to Note 13) and as part of the settlement to purchase Apteryx Inc. (Refer to Note 4).

17. STOCK-BASED PAYMENTS

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

(Expressed in U.S. Dollars)

17. STOCK-BASED PAYMENTS (cont'd)

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

	Outstanding options	
	Number of Common Shares (Post Consolidation)	**Weighted Average Exercise Price in (CDN$)**
Outstanding, January 1, 2017	**550,067**	**$ 2.50**
Options granted	2,930,000	.91
Options forfeited	(210,565)	1.36
Options expired	(32,500)	3.52
Outstanding, December 31, 2017	**3,237,002**	**$ 1.12**
Options granted	-	-
Options forfeited	(201,163)	1.09
Options expired	-	-
Outstanding, March 31, 2018	**3,035,838**	**$ 1.12**

The options outstanding at March 31, 2018 have an exercises price in the range of CDN$0.90 to $4.90 (December 31,2017 – CDN$1.80 to $4.90) and a weighted average contractual life of 3.88 years (December 31, 2017 – 4.88 years). The amount of options exercisable at the end of March 31, 2018 was 696,700 (December 31, 2017 – 758,566).

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

Grant Date of Share Options	Share Price in CDN$	Exercise Price	Annual Dividend Yield of Share Options	Volatility	Risk-Free Interest Rate	Expected Life of the Share Options
January 27, 2015	$2.70	$2.80	Nil	113.22%	0.51%	8 years
February 26, 2015	$2.40	$2.50	Nil	112.22%	0.51%	5 years
February 5, 2016	$1.70	$1.80	Nil	108.56%	0.38%	8 years
May 25, 2016	$1.30	$1.80	Nil	107.90%	0.63%	3 years
May 25, 2016	$1.30	$1.80	Nil	107.90%	0.63%	2 years
April 10, 2017	$0.80	$1.00	Nil	108.56%	0.76%	2 years
April 10, 2017	$0.80	$1.00	Nil	108.56%	0.76%	5 years
April 10, 2017	$0.80	$0.90	Nil	108.56%	0.76%	5 years
May 31, 2017	$0.80	$0.90	Nil	108.56%	0.69%	5 years

For the three months ended March 31, 2018, the Company recognized $88,464 of stock-based compensation expense (for the three months ended March 31, 2017 – $11,937). Forfeiture rate is estimated based upon prior year forfeitures as a percentage of the total amount of options issued.

(Expressed in U.S. Dollars)

18. 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, January 1, 2017	**36,000**	**2.50**
Granted	-	-
Exercised	-	-
Outstanding, December 31, 2017	**36,000**	**2.50**
Granted	-	-
Exercised	-	-
Outstanding, March 31, 2018	**36,000**	**2.50**

All DSUs are exercisable as of March 31, 2018. The contractual life is dependent upon service provided to the Company. During the three months ended March 31, 2018 and 2017, the Company recorded an expense of $Nil.

19. 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. The North American segment makes up over 98% of the Company's sales. 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.

20. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

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

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

(Expressed in U.S. Dollars)

20. CAPITAL DISCLOSURES (cont'd)

The capital of the Company consists of the consolidated equity and debentures, net of cash:

	March 31, 2018	December 31, 2017
Equity/Deficiency	**$ 2,981,983**	$ 2,818,153
Debentures	**5,897,585**	5,871,293
	8,879,568	8,689,446
Less: Cash	**(1,433,006)**	(2,425,468)
	$ 7,446,562	$ 6,263,978

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

<u>Classification of financial instruments</u>

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

	March 31, 2018	December 31, 2017
Loans and receivables		
Cash	$ 1,433,006	$ 2,425,468
Trade and receivables	1,909,267	1,578,371
	$ 3,342,273	$ 4,003,839

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

	March 31, 2018	December 31, 2017
Derivative liability at fair value through profit or loss:		
Warrants	$ 899,474	1,372,122
	$ 899,474	1,372,122

	March 31, 2018	December 31, 2017
Other financial liabilities:		
Trades payable and accrued liabilities	$ 2,371,192	$ 2,191,815
Deferred revenues	739,638	892,570
Debenture	5,897,585	5,871,293
Deferred consideration on acquisition	1,386,111	1,650,000
	$ 10,394,526	$ 10,605,678

(Expressed in U.S. Dollars)

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

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.

Details of the Company's debentures and information about the fair value hierarchy as at March 31, 2018 are as follows:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value at March 31, 2018
Debenture	-	$ 4,171,287	$ 1,726,298	$ 5,897,585
Total	-	**$ 4,171,287**	**$ 1,726,298**	**$ 5,897,585**

Details of the Company's debentures and information about the fair value hierarchy as at December 31, 2017 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, 2017
Debenture	-	$ 4,129,245	$ 1,742,048	$ 5,871,293
Total	**-**	**$ 4,129,245**	**$ 1,742,048**	**$ 5,871,293**

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. There were no transfers between Level 1 and 2 in 2018 or 2017.

Credit Risk

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

The Company monitors collectability of receivables on an on-going basis to determine credit risk. In order to mitigate credit risk, the Company offers credit terms to established customers. Other customers are required to pay in advance or by credit card, prior to shipping of the product. At March 31, 2018, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

(Expressed in U.S. Dollars)

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

As at March 31, 2018 and December 31, 2017, the Company's exposure to credit risk for these financial instruments was as follows:

	March 31, 2018	December 31, 2017
Cash	$ 1,433,006	$ 2,425,468
Trade and Other Receivables	1,909,267	1,578,371
	$ 3,342,273	$ 4,003,839

Trade and other receivable balances of $1,865,979 as at March 31, 2018 (December 31, 2017 - $1,557,714) were aged as follows in the below table. It does not include goods and services tax receivable of $43,288 as at March 31, 2018 (December 31, 2017 – $20,657).

	March 31, 2018	December 31, 2017
Current	$ 1,335,101	$ 1,075,602
31-60 days	349,558	184,460
Over 60 days	181,320	297,652
	$ 1,865,979	$ 1,557,714

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 March 31, 2018 are listed below. Refer to the Note 12 for other contractual maturities, lease obligations and commitments that are not included in the table below.

Trade payables were aged as follows as at March 31, 2018 and December 31, 2017, respectively and do not include accrued liabilities, warranty provision and state and provincial sales tax payable. All trade payables are current liabilities:

	March 31, 2018	December 31, 2017
Current	$ 1,099,641	$ 440,118
31-60 days	6,551	34,752
Over 60 days	133,669	286,840
	$ 1,239,861	$ 761,710

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

	Within One Year	**Between One and Five years**
Trade payables and accrued liabilities	$ 2,371,192	$ -
Deferred revenue	739,638	-
Debenture	3,192,906	2,704,679
Deferred consideration on acquisition	1,386,111	-
	$ 7,689,847	$ 2,704,679

(Expressed in U.S. Dollars)

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

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities at December 31, 2017:

	Within One Year	Between One and Five years
Trade payables and accrued liabilities	$ 2,191,815	$ -
Deferred revenue	892,570	-
Debenture	2,152,841	3,718,452
Deferred consideration on acquisition	1,200,000	450,000
	$ 6,437,226	$ 4,168,452

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 March 31, 2018, 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:

	March 31, 2018	December 31, 2017
	CDN$	CDN$
Cash	$ 234,719	$ 345,952
Trade receivables	980	28,133
Trade payable and accrued liabilities	(87,336)	(24,386)
Net statement of financial position exposure	**$ 148,363**	**$ 349,699**

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.

(Expressed in U.S. Dollars)

22. EARNINGS PER SHARE

Profit attributable to ordinary shareholders (basic and diluted)

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

	March 31, 2018	March 31, 2017
Profit (Loss) for the year attributable to shareholders	$ 75,366	$ (1,087,961)
Profit (Loss) attributable to ordinary shareholders (basic and diluted)	**$ 75,366**	$ (1,087,961)
Profit (Loss) per share (basic and diluted)	**$0.00**	$ (0.04)
Weighted average number of shares outstanding (basic and diluted)	**37,914,636**	25,635,819

23. EMPLOYEE BENEFITS AND DEPRECIATION

For the three months ended March 31, 2018, the Company has incurred $1,557,861 of employee benefits and depreciation and amortization of $225,473. Employee benefits include wages, commissions, payroll taxes, stock-based payments and employee benefits.

24. SUBSEQUENT EVENTS

On April 20, 2018, the Company settled a claim with a former contractor for prior period unpaid services. The total settlement of CDN$75,000 (US$59,650) has been accrued as an administration expense in the financial statements for the year ended December 31, 2017.

On April 24, 2018, the Company entered into an amending agreement (the "Amending Agreement") which extends the terms of the February 10, 2018 Apteryx purchase agreement (the "Purchase Agreement"). In the Purchase Agreement, a holdback payment of $500,000 was due on February 10, 2018 and a deferred cash payment of $300,000 was due on March 10, 2018. The Amending Agreement states the Company will pay $450,000 of the holdback payment which consists of $277,778 already paid plus an additional payment of $172,222 on May 17, 2018. The remaining $50,000 on the holdback payment and the $300,000 deferred cash payment have been extended to November 10, 2019 and will bear interest at 12% per annum paid in arrears quarterly commencing May 17, 2018. The remaining deferred payments of $400,000 on August 10, 2018 and $450,000, payable in shares or cash at the Company's option, on February 10, 2019 are unchanged from the Purchase Agreement. As of May 23, 2018, the Company is compliant with the payment terms of the Amending Agreement.

On May 9, 2018, the Company announced a stock option grant of 660,000 stock options exercisable at CDN $0.42 per share to directors, officers, consultants and employees in accordance with its stock option plan.

On May 17, 2018, the Company completed financing of US$200,000 through the issuance of 12% secured debentures of the Company (the "Debentures") maturing after 12 months.