FINANCIAL STATEMENTS

December 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Verisante Technology Inc.:

We have audited the accompanying financial statements of Verisante Technology Inc. ("the Company"), which comprise the statement of financial position as at December 31, 2014, and the consolidated statement of financial position as at December 31, 2013, the statements of comprehensive loss, changes in equity and cash flows for the year ended December 31, 2014 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year ended 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 our 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, we consider 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014, and consolidated financial position as at December 31, 2013, and their financial performance and their cash flows for each of the years ended December 31, 2014, and December 31, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Fernandez Young LLP

Fernandez Young LLP
Certified General Accountants
Vancouver, Canada
April 29, 2015

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Verisante Technology Inc.
Statements of Financial Position
(expressed in Canadian dollars unless otherwise stated)

	December 31, 2014 $	December 31, 2013 $
ASSETS		
Current		
Cash	**339,611**	455,422
Accounts receivable	**–**	78,750
Inventory (Note 4)	**1,049,863**	857,069
Prepaid expenses	**253,697**	58,078
Sales taxes receivable	**62,609**	200,951
	1,705,780	1,650,270
Intangible assets and deferred development costs (Note 5)	**2,988,244**	3,683,327
Office facilities and equipment (Note 6)	**24,351**	105,269
Total Assets	**4,718,375**	5,438,866
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	**1,551,571**	686,360
Total Liabilities	**1,551,571**	686,360
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**17,010,460**	16,054,743
Contributed surplus	**2,462,864**	2,280,815
Warrants	**2,324,438**	2,164,500
Subscriptions received	**350,000**	–
Deficit	**(18,980,958)**	(15,747,552)
Total Shareholders' Equity	**3,166,804**	4,752,506
Total Liabilities and Shareholders' Equity	**4,718,375**	5,438,866

Commitments and contingent liabilities (Note 11)
Subsequent event (Note 14)

On behalf of the Board:

"Thomas Braun" *"Karen Boodram"*

The accompanying notes are an integral part of these financial statements

Verisante Technology Inc.
Statements of Comprehensive Loss
(expressed in Canadian dollars unless otherwise stated)

	Year Ended December 31, 2014 $	Year Ended December 31, 2013 $
Revenue	**218,816**	775,300
Cost of sales	**(66,989)**	(504,835)
Gross Profit	**151,827**	270,465
Expenses		
Amortization (Notes 5 and 6)	**1,129,732**	1,059,437
Bad debt expense	**–**	508,262
General and administrative (Note 7)	**1,964,462**	2,980,387
Regulatory and trustee fees	**52,283**	65,462
Research and development	**45,566**	108,574
Royalties	**163,068**	196,903
Stock based compensation (Note 9)	**142,512**	260,515
Total Expenses	**3,497,623**	5,179,540
Loss from Operations	**(3,345,796)**	(4,909,075)
Other Income (Expenses)		
Dividend income	**–**	8,827
Foreign exchange (loss) gain	**(33,351)**	646
Interest income	**–**	3,490
Loss on settlement of debt (Note 9)	**(18,843)**	–
Recovery of inventory costs (Note 3)	**233,384**	–
Rental revenue	**16,500**	–
Sales returns (Note 3)	**(85,300)**	–
Net Loss and Comprehensive Loss for the Year	**(3,233,406)**	(4,896,112)
Basic and Diluted Loss Per Common Share	**(0.04)**	(0.07)
Weighted Average Number of Common Shares Outstanding	**81,748,680**	72,452,847

The accompanying notes are an integral part of these financial statements

Verisante Technology Inc.
Statement of Changes in Equity
(expressed in Canadian dollars unless otherwise stated)

	Share Capital						
	Common Shares	Amount	Contributed Surplus	Warrants	Shares Subscribed	Deficit	Total Shareholders' Equity
		$	$	$	$	$	$
Balance, December 31, 2012	**66,572,232**	**12,357,722**	**2,210,378**	**2,305,207**	**10,800**	**(10,851,440)**	**6,032,667**
Units issued for cash	7,903,816	1,565,951	–	430,849	–	–	1,996,800
Share issuance costs	–	(317,466)	–	42,844	–	–	(274,622)
Shares issued pursuant to the exercise of stock options	525,000	358,078	(190,078)	–	–	–	168,000
Shares issued pursuant to the exercise of warrants	3,622,729	2,090,458	–	(614,400)	(10,800)	–	1,465,258
Stock based compensation	–	–	260,515	–	–	–	260,515
Net loss for the year	–	–	–	–	–	(4,896,112)	(4,896,112)
Balance, December 31, 2013	**78,623,777**	**16,054,743**	**2,280,815**	**2,164,500**	**–**	**(15,747,552)**	**4,752,506**
Shares issued for cash	4,500,000	650,000	–	–	–	–	650,000
Units issued for cash	2,915,500	338,356	–	157,279	–	–	495,635
Share issuance costs	–	(89,220)	–	12,060	–	–	(77,160)
Shares issued pursuant to the exercise of warrants	158,840	42,581	–	(9,401)	–	–	33,180
Shares issued for finder's fees	100,000	14,000	–	–	–	–	14,000
Stock based compensation	–	–	142,512	–	–	–	142,512
Stock based compensation for settlement of debt	–	–	39,537	–	–	–	39,537
Subscriptions received	–	–	–	–	350,000	–	350,000
Net loss for the year	–	–	–	–	–	(3,233,406)	(3,233,406)
Balance, December 31, 2014	**86,298,117**	**17,010,460**	**2,462,864**	**2,324,438**	**350,000**	**(18,980,958)**	**3,166,804**

The accompanying notes are an integral part of these financial statements

Verisante Technology Inc.
Statements of Cash Flows
(expressed in Canadian dollars unless otherwise stated)

	Year Ended December 31, 2014 $	Year Ended December 31, 2013 $
Cash Flows Used In Operating Activities		
Net loss for the year	**(3,233,406)**	(4,896,112)
Non-cash expenses:		
Amortization	**1,129,732**	1,059,437
Bad debt expense (recovery)	**–**	508,262
Loss on settlement of debt	**18,843**	–
Recovery of inventory costs	**(233,384)**	–
Sales returns	**85,300**	–
Stock based compensation	**142,512**	260,515
Changes in operating assets and liabilities:		
Amounts receivable	**226,834**	(587,012)
Prepaid expenses	**(195,619)**	43,762
Sales taxes receivable	**138,342**	243,264
Interest receivable	**–**	5,214
Inventory	**(192,794)**	(204,525)
Accounts payable and accrued liabilities	**725,161**	138,398
Net Cash Used in Operating Activities	**(1,388,479)**	(3,428,797)
Cash Flows Used In Investing Activities		
Deferred development costs	**(192,987)**	(1,063,989)
Office facilities and equipment	**–**	(49,415)
Short term investments	**–**	1,021,424
Net Cash Used in Investing Activities	**(192,987)**	(91,980)
Cash Flows Provided By Financing Activities		
Proceeds from subscription of common shares	**1,495,635**	1,996,800
Proceeds from the exercise of options	**–**	168,000
Proceeds from the exercise of warrants	**33,180**	1,465,258
Share issuance costs	**(63,160)**	(274,622)
Net Cash Provided by Financing Activities	**1,465,655**	3,355,436
Decrease In Cash	**(115,811)**	(165,341)
Cash – Beginning of Year	**455,422**	620,763
Cash – End of Year	**339,611**	455,422
Supplemental Disclosures:		
Interest paid	**–**	–
Income tax paid	**–**	–
Non-cash Investing and Financing Items:		
Shares issued for finder's fees	**14,000**	–
Stock options issued to settle debt	**20,694**	–

The accompanying notes are an integral part of these financial statements

1 Corporate information

Verisante Technology, Inc. (the “Company”, “Verisante”) was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on March 7, 2006, and is a medical device company committed to commercializing innovative systems for the early detection of cancer. The Company was incorporated under the Canadian Business Corporations Act as T-Ray Science, Inc. in March 2006 to bring together a team of high level academic researchers, medical device industry experts and corporate finance professionals to execute a targeted product strategy focused on the early detection of cancer. Since inception, the Company has been developing a skin cancer detector based on Terahertz technology out of the University of Waterloo. In connection with the R&D on a skin cancer device, the Company built a catalogue of Terahertz chips to be used as sources and detectors within a spectrometer. The Company began selling some of these chips to Universities and other research institutions in 2009.

In July 2010, the Company entered into a licensing agreement with the BC Cancer Agency to commercialize a skin cancer detector based on Raman Spectroscopy. The device, called the Verisante Aura™ can be used in the early detection of all forms of skin cancer, including basal cell and squamous cell carcinoma and melanoma. The Verisante Core™ device is based on the same platform technology as the Aura™ and can be used in the early detection of lung, cervical, gastrointestinal and colo-rectal cancers.

As a result of the Company’s commitment to commercializing the technology licensed from the BC Cancer Agency, management changed the Company’s name to reflect this shift in focus. Effective January 17, 2011, the Company changed its name from T-Ray Science, Inc. to Verisante Technology, Inc. and all Waterloo operations, including research and chip sales, were wound down by the end of January 2011 in order to shift resources to the commercialization of the Verisante Aura™ and Verisante Core™ devices.

On May 26, 2011, the Company entered into an Asset Purchase Agreement with Perceptronix Medical Inc., in which the Company purchased all rights to the ClearVu and ClearVu Elite endoscopy systems for early lung cancer detection.

On June 1, 2011, the Company entered into an agreement to license the exclusive world-wide rights for a novel rapid multi-spectral imaging cancer detection technology.

The Company’s registered office is suite 140 – 2639 Viking Way, Richmond, British Columbia, Canada, V6V 3B7.

The financial statements were authorized for issue by the Board of Directors on April 29, 2015.

2 Basis of presentation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) on a going concern basis.

Basis of measurement

The financial statements for the year ended December 31, 2013, were consolidated and included the accounts of the previously wholly-owned subsidiary, T-Ray Science (Delaware) Inc. At December 31, 2014, the Company no longer held an interest in the former subsidiary and the financial statements have been presented on a non-consolidated basis. The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company’s functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include the determination of impairment on financial and non-financial assets, the valuation of future income tax assets, the fair value of share-based payments, and determining whether contingent assets or liabilities exist.

Going concern of operations

The Company prepares its financial statements on a going concern basis which contemplates that it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company is not generating enough revenue from operations to cover the operating expenses. The Company incurred a net loss of $3,233,406 during the year-ended December 31, 2014, and, as of that date the Company‘s accumulated deficit was $18,980,958. However, the Company has sufficient cash resources to meet its obligations for at least 4 months from the end of the reporting year but the Company is in the process of negotiating additional funding as explained in Note 14 – subsequent events. As the Company is a startup stage, the recoverability of the operations costs incurred to date is dependent upon the obtaining of financing necessary to continue operations and, ultimately, on attaining profitable operations. The Company has funded such losses with external debt, share issuances, government grants and working capital. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amount and classification of liabilities and the reported revenue and expenses that would be necessary should the Company be unable to continue as a going concern.

3 *Summary of significant accounting policies*

Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to Canadian dollars, which is the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized as profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii) Foreign operations

The financial results of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency. The presentation currency of the Company is Canadian Dollars. Income and expenditure transactions of foreign operations are translated at the average rate of exchange for the year except for significant individual transactions which are translated at the rate of exchange in effect at the transaction date. All assets and liabilities, including fair value adjustments and goodwill arising on acquisition, are translated at the rate of exchange in effect at the reporting date. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in a foreign operation and are recognized in other comprehensive income. On disposal of part or all of the operations, the proportionate share of the related cumulative gains and losses previously recognized in the comprehensive income are included in determining the profit or loss on disposal of that operation.

Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. As at December 31, 2014 and 2013, the Company had no cash equivalents.

Office facilities and equipment

Office facilities and equipment are initially recorded at historical cost less accumulated depreciation and impairment losses. Office facilities and equipment are depreciated on a straight-line basis over their expected useful life. The estimated useful lives for the current and comparative periods are as follows:

Computer hardware, R&D equipment and office furniture:	3 years
Software:	2 years
Leasehold improvements:	Term of lease

Residual values and useful economic lives are reviewed at least annually, and adjusted if appropriate, at each reporting date. Subsequent expenditures relating to an item of office facilities and equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance expenses during the period in which they are incurred. Gains and losses on disposal of office facilities and equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized net within other income in the statement of comprehensive income.

Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized include the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditures are recognized in profit or loss as incurred. Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

3 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. The estimated useful lives for the current and comparative periods are as follows:

Acquired technology:	Straight-line over 2 to 5 years except for acquired in-process research and development costs which are expensed immediately as research and development
Licenses:	Straight-line over the life of the license (ranging from 5 to 17 years)
Patents:	Straight-line over 17 years or over estimated useful life

Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than its inventories, are reviewed at each reporting date to determine whether there is any indication of impairment in accordance with IAS 36, *Impairment of Assets*. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amounts of the following types of intangible assets are measured annually whether or not there is any indication that it may be impaired.

- an intangible asset with an indefinite useful life
- an intangible asset not yet available for use
- goodwill acquired in a business combination

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets than goodwill and intangible assets that have indefinite useful lives, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3 Summary of significant accounting policies (continued)

Impairment of financial assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

Leases

Leases are classified as either capital or operating in nature. Finance leases are those which substantially transfer the benefits and risks of ownership to the lessee. Obligations under finance leases are reduced by the principle portion of lease payments. The imputed interest portion of lease payments is charged to expense. Payments required under operating leases are recorded as an expense.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Financial instruments

The Company's financial instruments consist of cash, accounts receivable, inventory, and accounts payable and accrued liabilities.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Financial instruments in this category are recognized at fair value and subsequently carried at fair value. Gains and losses arising from changes in fair value are recorded in net income (loss) in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except if they are expected to be realized beyond twelve months of the statement of financial position date, where they are classified as non-current.

Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized at fair value and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. Available-for-sale investments are classified as current except if they are expected to be realized beyond twelve months of the statement of financial position date, where they are classified as non-current.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Financial liabilities at amortized cost: Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise accounts payable and accrued liabilities. These liabilities are initially recognized on the trade date at fair value when the Company becomes a party to the contractual provisions of the instrument and are subsequently carried at amortized cost using the effective interest rate method. The liabilities are derecognized when the Company's contractual obligations are discharged or cancelled or, they expire.

3 Summary of significant accounting policies (continued)

Revenue recognition

i) Sale of goods:

Revenue from the sale of goods, including the Aura device and Aura device service kits, is measured at the fair value of the consideration received or receivable, net of returns, discounts, rebates and sales taxes or duty. The Company has a return policy whereby the customer can return any product received within 30 days for a full refund excluding shipping and handling. The Company also extends credit terms to customers with the payment being due 30 days after delivery or the customer's acceptance of the risks, rewards and responsibility of the product. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. During the year ended December 31, 2014, the Company recognized sales returns of $85,300, resulting in a recovery of inventory costs of $49,479 related to these returns. In addition the Company recognized $183,905 in recovery of inventory costs related to bad debt write-offs in 2013 for a total recovery of inventory costs of $233,384.

ii) Other income:

Interest income generated from cash resources and short-term investments is recognized on an accrual basis and is recorded on a monthly basis as it is earned. Reasonableness of collection is considered when recording interest revenue.

Share capital

The Company has adopted the relative fair value method with respect to the measurement of shares and warrants issued as equity units. The relative fair value method requires an allocation of the net proceeds received based on the pro rata relative fair values of the components. If and when the warrants are ultimately exercised, the applicable amounts are transferred from warrants to share capital. If the warrants expire unexercised, the applicable amounts are transferred from warrants to contributed surplus.

Share-based payment

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there are no further adjustments for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service. All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credit to share capital, adjusted for any consideration paid.

Income taxes

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss. Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustments to income tax payable in respect of previous years. Current income taxes are determined using tax rates and laws that have been enacted or substantively enacted by the year-end date. Deferred tax assets and liabilities are recognized where the carrying amounts of an asset or liability differs from its tax base, except for the taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company re-assesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(expressed in Canadian dollars unless otherwise stated)

3 Summary of significant accounting policies (continued)

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) 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 shares held by the Company. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for shares held by the Company, for the effects of all dilutive potential common shares, which comprise warrants and share options granted to employees and consultants.

Standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for annual periods beginning after January 1, 2015 or later periods.

The following new IFRSs that have not been early adopted in these financial statements will not have a material effect on the Company's future results and financial position:

i) IFRS 9, *Financial Instruments* (New; to replace IAS 39 and IFRIC 9)

ii) Annual Improvements to IFRSs 2012 – 2014 Cycle, including IFRS 7, *Financial Instruments: Disclosures* and IAS 34, *Interim Financial Reporting*

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4 Inventory

At December 31, 2014, the Company held $1,049,863 (2013 - $857,069) in inventory, consisting of $653,130 (2013 - $680,322) in raw materials and $396,733 (2013 - $176,747) in finished goods.

5 Intangible assets and deferred development costs

Intangible assets and deferred development costs are comprised of the following:

	Acquired technology and patents $	Licenses $	Total $
Cost			
Balance at December 31, 2012	4,613,443	59,097	4,672,540
Development costs for the year	818,272	–	818,272
Balance at December 31, 2013	5,431,715	59,097	5,490,812
Development costs for the year	353,731	–	353,731
Balance at December 31, 2014	5,785,446	59,097	5,844,543
Depreciation and impairment losses			
Balance at December 31, 2012	833,677	5,530	839,207
Depreciation for the year	964,802	3,476	968,278
Balance at December 31, 2013	1,798,479	9,006	1,807,485
Depreciation for the year	1,045,337	3,477	1,048,814
Balance at December 31, 2014	2,843,816	12,483	2,856,299
Carrying amounts			
Balance at December 31, 2013	3,633,236	50,091	3,683,327
Balance at December 31, 2014	2,941,630	46,614	2,988,244

5 Intangible assets and deferred development costs (continued)

Licensing Agreement – MIT and RWTH Aachen

In 2008, the Company entered into a Licensing Agreement with the Massachusetts Institute of Technology (MIT) and a Licensing Agreement with RWTH Aachen University. Both technologies were related to the field of Terahertz. In addition, the Company has two sublicenses on the MIT Licensing Agreement. There were no sales derived from the sublicenses agreements, nor royalties paid. The Company remains current with terms of the MIT License; however considers the RWTH Aachen License abandoned, due to the acquisition of technology from the BC Cancer Agency in 2010. RWTH Aachen filed a lawsuit in Germany over a dispute with the licensing agreement and was awarded summary judgment of $75,894 (Euro 54,063), which has been included in accounts payable and accrued liabilities. The Company anticipates it will be able to settle the judgment equitably in due course, and does not believe the amount will have a material impact on the Company’s operations. The Company anticipates it is unlikely to realize any profits from those technologies. As a result, the Company fully impaired the Terahertz license and related deferred development costs of $103,758 during the year ended December 31, 2012.

Licensing Agreement

Effective July 14, 2010, the Company entered into a Licensing Agreement with the BC Cancer Agency (“BCCA”). Under the terms of the Agreement, the Company gains an exclusive worldwide right to use and sublicense BCCA’s patented skin cancer detection technology; and to manufacture, distribute and sell products based on the licensed technology. The term of the agreement is the later of 20 years from the effective date or the expiry of the last patent licensed under the agreement. In return, the Company will pay BCCA an initial licensing fee of $70,000, of which 50% is due upon signing (paid) and 50% is due on January 1, 2011 (paid), pay a royalty of 6% on revenue and 50% of sublicensing revenue (“Earned Royalties”), issue 1,655,000 common share purchase warrants (issued), and an annual license maintenance fee.

The Company must also reimburse BCCA in the amount of $50,009 (paid), representing costs incurred on the technology by BCCA. During the first three years of the agreement, the Company must pay a minimum annual royalty equal to the greater of $60,000 or the Earned Royalties (amended September 30, 2010). After the first three years of the agreement, the Company must pay a minimum annual royalty equal to the greater of $120,000 or the Earned Royalties (amended September 30, 2010). The initial licensing fee and the royalties are non-refundable. The Company must also pay development milestone payments of $120,000 upon first jurisdictional regulatory approval for sale (paid), $20,000 upon first sale or lease including research use only, and $120,000 upon first jurisdictional regulatory approval for sale in second clinical application. Pursuant to the Agreement, the Company issued 1,655,000 common share purchase warrants on July 14, 2010 with a fair value of $295,101. The warrants have a term of five years and an exercise price of $0.25 per share.

First Amendment to the Licensing Agreement

On September 30, 2010, the Company entered into a First Amendment to the Licensing Agreement with the BCCA (the “Amendment”). Pursuant to the Amendment, the Company must issue an additional 200,000 common share purchase warrants to BCCA (issued). Each warrant is exercisable at a price of $0.17 per common share for a period of 5 years. In addition, the minimum annual royalty was amended to equal the greater of $80,000 or the Earned Royalties during the first three years of the agreement, and to equal the greater of $160,000 or the Earned Royalties after the first three years. In addition to the original milestone payments, the Company must also pay $120,000 upon first jurisdictional regulatory approval for sale in third clinical application. Pursuant to the Amendment, the Company issued 200,000 common share purchase warrants on November 16, 2010 with a fair value of $32,387. The warrants have a term of five years and an exercise price of $0.18 per share.

Collaborative Research Agreements

In connection with the Licensing Agreement, the Company entered into a Collaborative Research Agreement (the “CRA”) for a term of one year with the BCCA on September 30, 2010. Under the terms of the CRA, the BCCA will assist the Company in the production of several clinical prototypes of the skin cancer detection technology. In return, the Company must pay BCCA $38,137 upon execution of the agreement (paid), $38,137 on January 1, 2011 (paid), $38,137 on April 1, 2011, and $38,137 on July 1, 2011.

Effective April 1, 2011, the Company entered into a First Amendment to the Collaborative Research Agreement with the BCCA (the “CRA Amendment”). Pursuant to the CRA Amendment, the Company agreed to extend the contract period to March 31, 2012. In addition, the payments of $38,137 on April 1, 2011, and July 1, 2011, were eliminated and replaced with the following payment terms: $77,200 on April 1, 2011 (paid), $77,200 on July 1, 2011 (paid), $77,200 on October 1, 2011 (paid), and $77,200 on January 1, 2012 (paid).

(expressed in Canadian dollars unless otherwise stated)

5 Intangible assets and deferred development costs (continued)

Collaborative Research Agreements (continued)

Effective April 1, 2012, the Company entered into a Second Amendment to the Collaborative Research Agreement with the BCCA (the "CRA Amendment"). Pursuant to the CRA Amendment, the Company agreed to extend the contract period to April 30, 2013. In addition, the original agreement was amended to include the following additional payments: $61,317 on April 1, 2012 (paid), $61,317 on July 1, 2012 (paid), $61,317 on October 1, 2012 (paid), and $61,317 on January 1, 2013 (paid).

Effective May 1, 2013, the Company entered into a Third Amendment to the Collaborative Research Agreement with the BCCA (the "CRA Amendment"). Pursuant to the CRA Amendment, the Company agreed to extend the contract period to April 30, 2014. In addition, the original agreement was amended to include the following additional payments: $62,480 on May 1, 2013, $62,480 on August 1, 2013, $62,480 on November 1, 2013, and $62,480 on February 1, 2014. The Company has not made the additional payments at December 31, 2014, and is currently re-negotiating the terms of the agreement.

On November 29, 2010, the Company entered into an additional Collaborative Research Agreement with the University of British Columbia (the "UBC CRA") for a period of 6 months. Pursuant to the agreement, the Company funded the statistical analysis of the results of a six year human clinical study in which the Verisante Aura technology was used to image approximately 1,000 suspicious skin lesions at Vancouver General Hospital's Skin Care Centre. In return the Company funded the $62,500 cost of the analysis.

6 Office facilities and equipment

	Computer hardware $	Software $	R&D equipment $	Office furniture $	Leasehold improvements $	Total $
Cost						
Balance at December 31, 2012	26,133	4,810	27,573	47,558	137,314	243,388
Additions	10,214	30,364	5,433	–	3,404	49,415
Balance at December 31, 2013	36,347	35,174	33,006	47,558	140,718	292,803
Additions	–	–	–	–	–	–
Balance at December 31, 2014	36,347	35,174	33,006	47,558	140,718	292,803
Depreciation and impairment losses						
Balance at December 31, 2012	18,885	2,021	18,053	17,071	40,345	96,375
Depreciation for the year	5,354	4,289	7,140	14,909	59,467	91,159
Balance at December 31, 2013	24,239	6,310	25,193	31,980	99,812	187,534
Depreciation for the year	6,189	16,212	4,780	12,831	40,906	80,918
Balance at December 31, 2014	30,428	22,522	29,973	44,811	140,718	268,452
Carrying amounts						
Balance at December 31, 2013	12,108	28,864	7,813	15,578	40,906	105,269
Balance at December 31, 2014	5,919	12,652	3,033	2,747	–	24,351

7 Related party transactions

At December 31, 2014, the Company is indebted to the Chief Executive Officer ("CEO") of the Company for $187,500 (2013 - $nil) for accrued salary. The balance has been included in accounts payable and accrued liabilities, is unsecured, non interest-bearing and due on demand.

At December 31, 2014, the Company is indebted to the Chief Financial Officer ("CFO") of the Company for $88,166 (December 31, 2013 - $nil) for accrued salary. The balance has been included in accounts payable and accrued liabilities, is unsecured, non interest-bearing and due on demand.

During the year ended December 31, 2014, the Company incurred salary and bonuses of $250,000 (2013 - $250,000) to the CEO of the Company and $132,250 (2013 - $132,251) to the CFO of the Company.

During the year ended December 31, 2014, the Company recognized $102,400 (2013 - $196,913) of stock-based compensation for officers and directors of the Company.

8 Share capital

Common shares

The Company is authorized to issue an unlimited number of common shares without par value.

All of the authorized unlimited common shares are of the same class and, once issued, rank equally as to dividends, if and when declared by the Board of Directors, voting powers (one vote per share) and participation in assets upon dissolution or winding-up.

Issued during the year ended December 31, 2014:

- On March 18, 2014, the Company completed a private placement of 2,915,500 units ("Units") at a price of $0.17 per Unit for gross proceeds of $495,635. Each Unit consists of one common share and one common share purchase warrant, each warrant entitling the holder to acquire a common share at $0.25 per share for a period of two years from the date of issuance. Cash proceeds from the private placement of $338,356 and $157,279 were allocated to the common shares and warrants issued in the private placement, respectively, based on their relative fair values at the closing date of the private placement. In connection with the private placement, the Company paid share issuance costs of $8,160 and issued 48,000 warrants to the finders with a fair value of $3,793. Each finder's warrant entitles the holder to acquire a common share at $0.25 per share for a period of two years from the date of issuance.
- On June 26, 2014, the Company completed a private placement of 2,000,000 shares at a price of $0.15 per share for gross proceeds of $300,000.
- On October 15, 2014, the Company completed a private placement of 2,500,000 shares at a price of $0.14 per share for gross proceeds of $350,000. In connection with the private placement, the Company issued 100,000 shares with a fair value of $14,000 as finder's fees and paid share issuance costs of $20,000.
- On December 31, 2014, the Company completed a private placement of 3,888,889 shares at a price of $0.09 per share for gross proceeds of $350,000. In connection with the private placement, the Company paid share issuance costs of $35,000.
- During the year ended December 31, 2014, the Company issued 158,840 common shares pursuant to the exercise of warrants for proceeds of $33,180. The fair value of the warrants of $9,401 was reclassified from warrants into share capital upon exercise.

Issued during the year ended December 31, 2013:

- On May 17, 2013, the Company completed a private placement of 2,357,500 units ("Units") at a price of $0.40 per Unit for gross proceeds of $943,000. Each Unit consists of one common share and one common share purchase warrant, each full warrant entitling the holder to acquire a common share at $0.60 per share for a period of two years from the date of issuance. Cash proceeds from the private placement of $736,506 and $206,494 were allocated to the common shares and warrants issued in the private placement, respectively, based on their relative fair values at the closing date of the private placement. In connection with the private placement, the Company paid share issuance costs of $112,872 and issued 151,000 warrants to the finders with a fair value of $16,934. Each finder's warrant entitles the holder to acquire a common share at $0.60 per share for a period of two years from the date of issuance.

(expressed in Canadian dollars unless otherwise stated)

8 Share capital (continued)

Common shares (continued)

- On November 8, 2013, the Company completed a private placement of 5,546,316 units ("Units") at a price of $0.19 per Unit for gross proceeds of $1,053,800. Each Unit consists of one common share and one common share purchase warrant, each full warrant entitling the holder to acquire a common share at $0.25 per share for a period of two years from the date of issuance. Cash proceeds from the private placement of $829,445 and $224,355 were allocated to the common shares and warrants issued in the private placement, respectively, based on their relative fair values at the closing date of the private placement. In connection with the private placement, the Company paid share issuance costs of $162,779 and issued 504,152 agents' warrants with a fair value of $25,910. Each agents' warrant entitles the holder to acquire a common share at $0.25 per share for a period of two years from the date of issuance.
- During the year ended December 31, 2013, the Company issued 3,622,729 common shares pursuant to the exercise of warrants for proceeds of $1,476,058, of which $10,800 was received at December 31, 2012. The fair value of the warrants of $614,400 was reclassified from warrants into share capital upon exercise.
- During the year ended December 31, 2013, the Company issued 525,000 common shares pursuant to the exercise of stock options for proceeds of $168,000. The fair value of the stock options of $190,078 was reclassified from contributed surplus into share capital upon exercise.

Preferred shares

The Company is authorized to issue an unlimited number of Class A preferred shares and Class B preferred shares.

The preferred shares shall have certain rights, privileges, restrictions and conditions as determined by the Board of Directors. No preferred shares have been issued since the Company's inception.

9 Stock options and warrants

The Company has a stock option plan that provides for the issuance of options to its directors, officers and employees. The maximum number of outstanding options must be no more than 6,617,468 options at any point in time. The term of the options must be no longer than 10 years and the directors determine the vesting period.

The following table summarizes information about the options at December 31, 2014 and 2013, and the changes for the years then ended:

	December 31, 2014		December 31, 2013	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Options outstanding – Beginning of year	4,689,570	0.36	4,814,570	0.36
Granted	1,825,000	0.15	600,000	0.48
Exercised	–	–	(525,000)	0.32
Cancelled / Expired	(1,250,000)	0.36	(200,000)	0.64
Options outstanding – End of year	5,264,570	0.29	4,689,570	0.37
Options exercisable – End of year	5,264,570	0.29	4,614,570	0.36

The Company's stock options are exercisable only for common shares.

On December 2, 2014, the Company entered into a debt settlement agreement, whereby the Company agreed to issue 450,000 stock options at $0.12 per share, exercisable for a term of 5 years, in consideration for the settlement of $20,693 in accounts payable. The fair value of the stock options was $39,536, resulting in a loss on settlement of debt of $18,843.

(expressed in Canadian dollars unless otherwise stated)

9 Stock options and warrants (continued)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2014:

Range of Exercise Prices $	Options outstanding	Options Exercisable	Weighted average remaining contracted life (years)
0.12 – 0.25	3,177,500	3,177,500	2.99
0.26 – 0.30	897,500	897,500	0.64
0.52 – 0.75	1,189,570	1,189,570	2.56
	5,264,570	5,264,570	2.49

Stock-based compensation expense is determined using the Black-Scholes option pricing model. During the year ended December 31, 2014, the Company recognized stock-based compensation expense of $142,**512** (2013 - $260,515) in contributed surplus, which will be applied to share capital upon exercise. The weighted average fair value of the options granted during the year ended December 31, 2014, was $0.10 (2013 - $0.07). Weighted average assumptions used in calculating the fair value of stock-based compensation expense are as follows:

	2014	2013
Risk-free rate	**1.42%**	1.10%
Dividend yield	**0%**	0%
Volatility factor of the expected market price of the Company's common shares	**96%**	65%
Weighted average expected life of the options (years)	**4.64**	1.75

There were no stock options exercised during the year ended December 31, 2014. The weighted average common share price at the date of exercise of options during the period ended December 31, 2013 was $0.56 per share.

Share purchase warrants

The following table summarizes information about the warrants at December 31, 2014 and 2013, and the changes for the period then ended:

	December 31, 2014		December 31, 2013	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Warrants outstanding – Beginning of year	10,168,739	0.34	11,900,625	0.62
Issued	2,963,500	0.25	8,558,968	0.35
Exercised	(158,840)	0.21	(3,622,729)	0.41
Expired	–	–	(6,668,125)	0.50
Warrants outstanding – End of year	12,973,399	0.32	10,168,739	0.34

The Company's warrants are exercisable only for common shares. The following table summarizes information about warrants outstanding and exercisable at December 31, 2014:

Exercise Price $	Expiry date	Warrants outstanding	Weighted average remaining contracted life (years)
0.60	May 17, 2015	2,508,500	0.38
0.25	July 14, 2015	1,554,771	0.53
0.25	November 8, 2015	5,786,628	0.85
0.18	November 16, 2015	60,000	0.88
0.25	March 18, 2016	2,963,500	1.21
0.66	June 1, 2016	100,000	1.42
		12,973,399	0.81

(expressed in Canadian dollars unless otherwise stated)

10 Management of capital

The Company manages its cash, common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its technology and products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.

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. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account.

The Company will require capital resources to carry its research and development plans and operations through its current operating period.

11 Commitments and contingent liabilities

Effective July 14, 2010, the Company entered into a Licensing Agreement with the BC Cancer Agency ("BCCA"). On September 30, 2010, the Company entered into a First Amendment to the Licensing Agreement with the BCCA (the "Amendment"). Pursuant to the Amendment, the minimum annual royalty was amended to equal the greater of $80,000 or the Earned Royalties during the first three years of the agreement, and to equal the greater of $160,000 or the Earned Royalties after the first three years. In addition to the original milestone payments, the Company must also pay $120,000 upon first jurisdictional regulatory approval for sale in third clinical application.

On June 1, 2011, the Company entered into a licensing agreement to license the exclusive world-wide rights for a novel rapid multi-spectral imaging cancer detection technology in consideration for $10,875 and 100,000 common share purchase warrants with a fair value of $48,995. Each full warrant entitles the holder to acquire one common share at a price of $0.66 per share for a period of five years from the date of issuance. The Company will also pay the inventors on an annual basis the lessor of a system royalty or a running royalty as follows:

Term	System Royalty	Running Royalty
Year 1 – 5	2% of net sales of the licensed products	$200 per system
Year 6 – 8	1.5% of net sales of the licensed products	$150 per system
Each year thereafter	1% of net sales of the licensed products	$100 per system

In addition, the Company has the right to grant sublicenses of its right under this licensing agreement. The Company will pay the inventors fifty percent (50%) of all sublicense income received by the Company. Any payments by the Company that are not paid on or before the date such payments are due under this Agreement shall bear interest, to the extent permitted by law, at two percentage points above the prime rate of interest as reported by the Bank of Canada on the date payment is due.

On May 26, 2011, the Company entered into an Asset Purchase Agreement (the "Agreement") with Perceptronix Medical Inc. ("PMI"), in which the Company purchased all rights to the ClearVu™ and ClearVu Elite™ endoscopy systems for early lung cancer detection developed by PMI in consideration for $200,000. Pursuant to a prior commitment entered into by PMI, the Company must deliver a ClearVu Elite™ system to the Research Institute of Oncology of the Ministry of Health and Social Development of the Russian Federation upon receiving a request from the Russian Federation (which request has, to date, not been received).

On February 2, 2013, the Company entered into a purchase obligation for $499,500 relating to the purchase of parts for the manufacture of the first 100 Aura devices. To date, the Company has completed the purchase of parts from StarFish Product Engineering Inc. ("StarFish") for 21 Aura devices and in March 2014 prepaid for an additional 40 units, which StarFish has agreed would complete the Company's purchase obligation.

(expressed in Canadian dollars unless otherwise stated)

11 *Commitments and contingent liabilities (continued)*

On May 29, 2014, the Company entered into a letter of intent with Astoria Capital SA ("Astoria") to sublicense and, in turn, finance the development and commercialization of the Company's cancer detection technology for the upper gastrointestinal system. Under the letter of intent, the Company and Astoria plan to form a Polish joint-stock company, Verisante Technology Europe S.A. ("VTE"). Astoria will receive 70% of the total equity in VTE and the Company will receive 25% of the total equity in VTE for assistance in management and commercialization of the technology. 5% of the shares will be reserved for management and supervisory board members appointed by the Company. Under the terms of the letter of intent, the Company will sublicense to VTE the worldwide exclusive technology rights for the technology. VTE will pay the Company a 3% royalty on instruments sold and the Company will act as the contract developer and manufacture of devices for VTE. VTE will also pay the Company a development fee of $1,000,000 upon regulatory approval of a device for the upper gastrointestinal system in Europe. In addition, VTE will provide financing for up to $2,500,000 for development and commercialization of the technology, including regulatory costs. Astoria will be responsible for raising any additional equity capital required to support development and commercialization of the technology.

Contingent liabilities

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. On an ongoing basis, the Company assesses the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable costs and losses and a determination of the provision required, if any, for these contingencies is made after analysis of each individual issue. The Company has provided for no amount in respect of contingent liabilities in the financial statements.

At December 31, 2014, the Company is involved in a lawsuit with RWTH Aachen University over a dispute with a licensing agreement, in which RWTH Aachen was awarded summary judgment of $75,894 (Euro 54,063) (Note 5). This amount has been included in accounts payable and accrued liabilities at December 31, 2014. The Company anticipates it will be able to settle the judgment equitably in due course, and does not believe the amount will have a material impact on the Company's operations.

12 *Financial Instruments*

Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at December 31, 2014, as follows:

	Fair Value Measurements Using			
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Balance, December 31, 2014 $
Cash	339,611	–	–	339,611
	339,611	–	–	339,611

The fair values of other financial instruments, which include accounts receivable, inventory and accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term maturity of these instruments.

Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, and sales taxes receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The Company's sales taxes receivable are with the government of Canada in the form of sales tax, and therefore the credit risk is minimal.

The Company's credit risk for accounts receivable is concentrated, as 100% of its sales during the period were to three customer. Most sales' payment terms are set in accordance with industry practice. Some of the Company's customers are distributors for a given territory and are privately-held enterprises. Adverse changes in a customer's financial position could cause the Company to limit or discontinue conducting business with that customer, require the Company to assume more credit risk relating to that customer's future purchases or result in uncollectible accounts receivable from that customer. Such changes could have a material adverse effect on business, results of operations, financial condition and cash flows. The carrying amount of financial assets represents the maximum credit exposure.

12 *Financial Instruments (continued)*

Foreign Exchange Rate Risk

The Company operates in Canada and its cash is held in Canada in Canadian dollars. The Company's sales to foreign distributors are incurred in Canadian dollars. The Company also has vendors which charge fees in Canadian and U.S. dollars. The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk. However, management of the Company believes there is no significant exposure to foreign currency fluctuations.

Interest Rate Risk

The Company's cash may contain highly liquid investments that earn interest at market rates. The Company manages its interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to fund daily operations. Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

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 currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

13 *Income taxes*

	2014 **$**	2013 $
Statutory rates	**26.00%**	25.75%
Income tax recovery at statutory rate	**(840,700)**	(1,260,900)
Stock-based compensation	**37,100**	67,100
Items not deductible for tax purposes	**19,900**	132,500
Financing costs	**(50,500)**	(60,200)
Effect of change in tax rate	**(29,000)**	(63,000)
Unrecognized future income tax assets	**863,200**	1,184,500
Future income taxes recovered	**–**	–

The components of future income taxes are:

	2014 **$**	2013 $
Non-capital losses carry forwards	**3,896,000**	3,274,000
Financing costs	**88,000**	118,000
Valuation allowance	**(3,984,000)**	(3,392,000)
Net future tax assets	**–**	–

As of December 31, 2014, the Company has available tax non-capital tax losses of approximately $14,984,900 that may be offset against future Canadian taxable income. These losses expire as follows:

	$
2028	580,300
2029	–
2030	1,171,700
2031	3,290,500
2032	2,943,800
2033	3,789,900
2034	3,208,700
	14,984,900

14 Subsequent event

Subsequent to the year ended December 31, 2014, the Company began exploring financing opportunities other than private placement equity financings, including entering into discussions for the issuance of a convertible debt. Management is currently in discussions to complete transaction's to be able to secure debt financing that will allow operations to continue for at least the next 12 months. In addition, the Company is negotiating debt for shares settlements such that, with the funds from the debt financing and the debt for share settlements, all or most of the current accounts payable and accrued liabilities shall be reduced.