

IMAGING DYNAMICS COMPANY LTD.

FINANCIAL RESULTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

Released November 28, 2014



Your Global Medical Imaging Technology Provider

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited, interim consolidated financial statements for the nine months ended September 30, 2014, of the Company have been prepared by and are the responsibility of the Company's Management.

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

Management Report

To the Shareholders of Imaging Dynamics Company Ltd.

The accompanying unaudited interim consolidated financial statements for the nine months ended September 30, 2014 of Imaging Dynamics Company Ltd. (the “Company”) are the responsibility of Management. The unaudited interim consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards (“IFRS”) and include certain estimates that reflect Management’s best judgment.

Management is also responsible for a system of internal controls which is designed to provide reasonable assurance that the Company’s assets are safeguarded and accounting systems provide timely, accurate financial reports.

Signed: “Sidong Huang”

Signed: “Dan Fuoco”

Sidong Huang

Dan Fuoco

President and Chief Executive Officer

Chief Financial Officer

November 28, 2014

Imaging Dynamics Company Ltd.

Consolidated Statements of Financial Position

As At	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	\$ 364,448	\$ 1,254,763
Trade and other receivables (Note 4)	45,659	113,887
Inventory (Note 5)	1,031,127	1,075,257
Prepaid expenses and others	125,568	89,759
	<u>1,566,802</u>	<u>2,533,666</u>
Property, plant and equipment (Note 6)	141,785	175,754
Intangible assets (Note 7)	122,699	172,080
	<u>\$ 1,831,286</u>	<u>\$ 2,881,500</u>
Liabilities		
Current Liabilities		
Trade and other payables (Note 10)	\$ 1,525,718	\$ 1,850,120
Deferred revenue	402,710	347,965
Due to director (Note 9)	100,787	103,219
Warranty provision	137,790	179,718
Current portion of long-term debt (Note 8)	1,120,000	1,045,025
	<u>3,287,005</u>	<u>3,526,047</u>
Shareholders' deficiency		
Share capital (Note 11)	76,345,461	76,345,461
Share-based payments reserve (Note 12)	6,846,778	6,846,778
Contributed surplus (Note 13)	4,630,094	4,630,094
Deficit	(89,278,053)	(88,466,880)
	<u>(1,455,719)</u>	<u>(644,547)</u>
	<u>\$ 1,831,286</u>	<u>\$ 2,881,500</u>

Going concern (Note 2)
Commitments and contingencies (Note 20)

On behalf of the Board:

Signed: **"Sidong Huang"**
Sidong Huang, Director

Signed: **"Paul Lin"**
Paul Lin, Director

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

Imaging Dynamics Company Ltd.

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 521,821	\$ 594,992	\$1,635,817	\$ 1,432,326
Cost of sales	298,793	355,333	885,501	686,692
Gross profit	223,028	239,659	750,316	745,634
Expenses				
Sales and marketing	153,867	230,585	523,718	615,986
General and administrative	212,238	208,135	697,026	946,010
Production and manufacturing	65,660	106,142	202,538	361,021
Research and development	962	37,000	17,161	161,462
Foreign exchange loss (gain)	(49,774)	(75,204)	(25,325)	77,330
Warranty (recovery) expense	(1,720)	(4,717)	(21,424)	(49,623)
Share-based payment (Note 12)	-	-	-	-
Bad debt (recovery)	-	-	-	-
Amortization of property, plant and equipment	11,175	15,360	33,969	46,607
Amortization of intangible assets	16,461	19,315	49,381	57,945
	408,870	536,616	1,477,044	2,216,738
Loss before finance costs	(185,842)	(296,957)	(726,728)	(1,471,104)
Finance Costs				
Interest recovery (expense)	(18,575)	(36,348)	(93,562)	(104,128)
Interest or other income	4	4,629	9,118	4,608
Net income (loss) and comprehensive income (loss)	\$ (204,413)	\$ (328,676)	\$ (811,172)	\$ (1,570,624)
Net loss per share, basic and diluted (Note 14)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

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

Imaging Dynamics Company Ltd.

Consolidated Statements of Changes in Shareholders' Deficiency (Unaudited)

	Share capital	Share-based payments reserve	Contributed surplus	Warrants reserve	Deficit	Total shareholder deficiency
Balance, January 1, 2014	\$ 76,345,461	\$ 6,846,778	\$ 4,630,094	\$ -	\$ (88,466,880)	\$ (644,547)
Loss for the period	-	-	-	-	(811,172)	(811,172)
Balance, September 30, 2014	\$ 76,345,461	\$ 6,846,778	\$ 4,630,094	\$ -	\$ (89,278,053)	\$ (1,455,719)
Balance, January 1, 2013	\$ 74,389,826	\$ 6,846,778	\$ 4,630,094	\$ -	\$ (86,505,063)	\$ (638,365)
Issued for cash - private placement	1,380,000					1,380,000
Loss for the period	-	-	-	-	(1,570,624)	(1,570,624)
Balance, September 30, 2013	\$ 75,769,826	\$ 6,845,778	\$ 4,630,094	\$ -	\$ (88,075,687)	\$ (828,989)

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

Imaging Dynamics Company Ltd.

Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cash provided by (used in):				
Operating activities				
Net income (loss)	\$(204,413)	\$ (328,676)	\$(811,172)	\$(1,570,624)
Items not affecting cash				
Amortization of property, plant & equipment	11,175	15,360	33,969	46,607
Amortization of intangible assets	16,461	19,315	49,381	57,945
Loan accretion and interest accrual	(18,575)	34,933	93,552	102,614
Share-based payments	-	-	-	-
Warranty	(11,720)	(7,717)	(41,928)	(58,119)
	(207,073)	(266,785)	(676,197)	(1,421,577)
Change in non-cash working capital (Note 15)	150,496	(518,468)	(211,684)	206,293
	(56,577)	(785,253)	(887,881)	(1,215,284)
Investing activities				
Additions to property, plant and equipment	-	-	-	(5,510)
	-	-	-	(5,510)
Financing activities				
Issuance of shares, net of issuance costs	-	1,380,000	-	1,380,000
Advance from director	-	(290,833)	(2,434)	100,560
	-	1,089,167	(2,434)	1,480,560
Net increase (decrease) in cash and cash equivalents	(56,577)	303,914	(890,315)	259,766
Cash and cash equivalents, beginning of the period	421,025	230,838	1,254,763	274,986
Cash and cash equivalents, end of the period	\$ 364,448	\$ 534,752	\$ 364,448	\$ 534,752

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

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

1. Nature of the organization

Imaging Dynamics Company Ltd. (the "Company") is a public company incorporated under the laws of the Province of Alberta. The Corporation is listed on the TSX Venture Exchange as a Tier 2 industrial issuer, trading under the symbol "IDL". The address of its registered office is Suite 1157 – 40th Avenue NE, Calgary, Alberta, Canada, T2E 6M9.

The Company's technology produces digital diagnostic images. Its purpose is to replace the need for film and chemical film processing, as well as the storage and retrieval costs normally associated with traditional X-ray technology. The Company provides an environmentally friendly solution for producing diagnostic images compared to traditional analog imaging.

2. Going concern

The unaudited interim consolidated financial statements of the Company have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. For the nine months period ended September 30, 2014, the Company has a significant negative working capital deficit of \$1,720,203 (December 31, 2013 - \$992,381), a negative cash flow from operating activities of \$887,881 (\$1,215,284 for the period ended September 30, 2013) and a significant net loss of \$811,172 (\$1,570,624 for the period ended September 30, 2013). As a result of recurring losses over the Company's history, the Company has a deficit of \$89.28 million as at September 30, 2014 (\$88.47 million as at December 31, 2013) and shareholders' deficiency of \$1.46 million (\$0.65 million as at December 31, 2013).

The ability of the Company to continue as a going concern will depend on attaining a satisfactory revenue level, the generation of cash from operations and the ability to secure new financing arrangements and new capital, the outcome of which is uncertain.

The Company may seek to raise additional capital through equity markets, debt markets or other innovative financing arrangements, including partnership or licensing arrangements that may be available for continued operations. However, the disclosed uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Although in the opinion of Management, the use of the going concern assumption is appropriate, there can be no assurance that any steps Management is taking will be successful. These unaudited interim consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, revenues, expenses and the balance sheet classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

3. Basis of preparation

a) Statement of compliance

These unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounts Standards Board ("IASB").

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

These unaudited interim consolidated financial statements were authorized for issuance on November 28, 2014 by the Board of Directors of the Company.

b) Basis of measurement

These unaudited interim consolidated financial statements have been prepared on an historical cost basis except as discussed in the significant accounting policies, below.

c) Functional and presentation currency

These unaudited interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

4. Trade and other receivables

	September 30, 2014	December 31, 2013
Trade receivables (Note 18)	\$ 29,216	\$ 95,903
GST and other	16,443	17,984
	<u>\$ 45,659</u>	<u>\$ 113,887</u>

Allowance for doubtful accounts of \$670,912 (December 31, 2013 - \$667,270) has been netted against trade receivables (see Note 18).

5. Inventory

During the period, the Company reversed \$15,202 (2013 - \$nil) of write-down of inventory that was recognized during previous years for inventory items used in products sold in the period.

6. Property, plant and equipment

Cost	Technical, lab and computer equip	Leasehold improvements	Office equipment	Tradeshow equipment	Total
Balance, December 31, 2012	\$ 1,967,220	\$ 95,362	\$ 487,225	\$ 1,099,100	\$ 3,648,907
Additions	-	-	5,513	-	5,513
Disposals	-	-	-	-	-
Balance, December 31, 2013	\$ 1,967,220	\$ 95,362	\$ 492,738	\$ 1,099,100	\$ 3,654,420
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance, September 30, 2014	\$ 1,967,220	\$ 95,362	\$ 492,738	\$ 1,099,100	\$ 3,654,420

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

Accumulated amortization	Technical, lab and computer equip	Leasehold improvements	Office equipment	Tradeshow equipment	Total
Balance, December 31, 2012	\$ 1,819,283	\$ 95,362	\$ 402,122	\$ 1,099,100	\$ 3,415,867
Amortization	44,381	-	18,418	-	62,799
Disposals	-	-	-	-	-
Balance, December 31, 2013	\$ 1,863,664	\$ 95,362	\$ 420,540	\$ 1,099,100	\$ 3,478,666
Amortization	23,300	-	10,668	-	33,969
Disposals	-	-	-	-	-
Balance, September 30, 2014	\$ 1,886,964	\$ 95,362	\$ 431,208	\$ 1,099,100	\$ 3,512,635

Net book value

As at, December 31, 2013	\$ 103,556	\$ -	\$ 72,198	\$ -	\$ 175,754
As at, September 30, 2014	\$ 80,255	\$ -	\$ 61,530	\$ -	\$ 141,785

7. Intangible assets

Cost	Software	Digital X-ray technology patents /licenses	Total
Balance, December 31, 2012	\$ 742,882	\$ 391,954	\$ 1,134,836
Additions	-	-	-
Disposals	-	-	-
Balance, December 31, 2013	\$ 742,882	\$ 391,954	\$ 1,134,836
Additions	-	-	-
Disposals	-	-	-
Balance, September 30, 2014	\$ 742,882	\$ 391,954	\$ 1,134,836

Accumulated amortization	Software	Digital X-ray technology patents and licenses	Total
Balance, December 31, 2012	\$ 615,998	\$ 269,488	\$ 885,486
Amortization	38,065	39,195	77,260
Disposals	-	-	-
Balance, December 31, 2013	\$ 654,063	\$ 308,693	\$ 962,756
Amortization	19,985	29,407	49,392
Disposals	-	-	-
Balance, September 30, 2014	\$ 674,048	\$ 338,100	\$ 1,012,148

Net book value

As at, December 31, 2013	\$ 88,819	\$ 83,261	\$ 172,080
As at, September 30, 2014	\$ 68,834	\$ 53,864	\$ 122,698

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

8. Long-term debt

On June 8, 2009 the Company established a loan payable with a group of shareholders for an aggregate amount of \$1,000,000. The long-term debt is secured by a general security agreement that is subordinated to a first charge on the Company's assets to a Vendor. The terms of the long-term debt were amended effective June 8, 2012 as follows: a) maturity date of the loan payable was amended to June 8, 2014; b) all rights with respect to covenants in the original loan payable have been waived until the new maturity date of June 8, 2014; c) annual interest rate was amended to 6% from 12%; d) all interest accrued and unpaid until June 8, 2012 on the loan payable was waived and written off; e) all other terms of the original loan payable remain unchanged and any of the current amendments do not and shall not impact or trigger any other provision contained in the original loan payable. Upon receipt of the new loan payable, the old loan was treated as an extinguishment of debt for accounting purposes, resulting in a gain on extinguishment of debt in the amount of \$167,658. The long-term debt was payable on demand on June 8, 2014.

Effective June 24, 2014, the maturity date of the loan payable was amended whereby: a) the maturity date was amended to June 8, 2015; b) the interest rate shall continue to be 6% per annum; c) interest accrued of \$120,000 that was due on June 8, 2014 will be paid on December 8, 2014; d) all other terms of the original loan payable remain unchanged and any of the current amendments do not and shall not impact or trigger any other provision contained in the original loan payable.

The Company has an option to prepay the whole or any part of the outstanding loan payable by giving thirty days notice and paying an amount equal to the loan payable outstanding times 1.05 plus any accrued interest thereunder as at the date of prepayment. Management has determined that the prepayment option is closely related and therefore no separation of the embedded derivative is required.

The following table shows how the unamortized accretion is netted with the loan payable and amortized using the effective interest method.

	September 30, 2014	December 31, 2013
Loan received, face value	\$ 1,000,000	\$ 1,000,000
Gain on extinguishment of debt	(167,658)	(167,658)
Accretion	287,658	212,683
Loan	<u>\$ 1,120,000</u>	<u>\$ 1,045,025</u>
Current	\$ 1,120,000	\$ 1,045,025
Long-term	-	-
Total	<u>\$ 1,120,000</u>	<u>\$ 1,045,025</u>

9. Due to Director

A director and officer of the Company paid for expenses of \$100,787 on behalf of the Company, which is included in due to director. The advance is non-interest bearing and has no fixed terms of repayment.

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

10. Trade and other payables

	September 30, 2014	December 31, 2013
Trade payables	\$ 1,303,804	\$ 1,579,064
Other payables and accruals	221,914	271,056
Trade and other payables	<u>\$ 1,525,718</u>	<u>\$ 1,850,120</u>

11. Share capital

- a) Authorized
An unlimited number of common shares
An unlimited number of non-voting redeemable preferred shares
- b) Issued and outstanding:

	September 30, 2014		December 31, 2013	
	Number of shares	Amount	Number of shares	Amount
Beginning of period	194,288,356	\$ 76,345,461	608,441,782	\$ 74,389,826
Issued for cash - pre-consolidation	-	-	300,000,000	1,380,000
Cancelled due to 5:1 consolidation	-	-	(726,753,426)	-
Share issue costs	-	-	-	(54,365)
Issued for cash - post-consolidation	-	-	12,600,000	630,000
End of period	<u>194,288,356</u>	<u>\$ 76,345,461</u>	<u>194,288,356</u>	<u>\$ 76,345,461</u>

12. Share-based payments reserve

The following table presents the reconciliation of share-based payments reserve with respect to share-based compensation:

	September 30, 2014	December 31, 2013
Beginning of the period	\$ 6,846,778	\$ 6,846,778
Share-based payments expense	-	-
End of period	<u>\$ 6,846,778</u>	<u>\$ 6,846,778</u>

The Company has established a share-based compensation plan for its directors, officers, employees, consultants and other key personnel ("Stock Option Plan"). Under the Stock Option Plan, the Company may grant up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option is determined by the market price of the Company's stock on the date of the grant and an option's maximum term is 5 years. Options generally vest over three to five years.

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

Stock Options

As at September 30, 2014, a total of 17,553,336 stock options (December 31, 2013 – 17,470,716 adjusted for the 5:1 share consolidation) remained in reserve. Under the Stock Option Plan, the following options (adjusted for the 5:1 share consolidation) were granted by the Company and are outstanding as at the dates shown in the following chart:

	September 30, 2014		December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of period	1,958,120	\$ 0.12	40,326,100	\$ 0.03
Forfeited - pre-consolidation	-	-	(29,528,000)	\$ 0.03
Cancelled - 5:1 consolidation	-	-	(8,638,480)	\$ 0.03
Forfeited - post consolidation	(82,620)	\$ 0.11	(201,500)	\$ 0.11
End of period	1,875,500	\$ 0.11	1,958,120	\$ 0.12
Options exercisable at end of period	1,875,500	\$ 0.11	1,958,120	\$ 0.12

The following table summarizes information about the Company's Stock Option Plan as at September 30, 2014:

Range of exercise price in dollars	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (months)	Weighted average exercise price	Number of options	Weighted average exercise price
Up to \$0.05	1,790,000	36.4	\$ 0.10	1,790,000	\$ 0.10
\$0.06 to \$0.10	85,500	11.6	\$ 0.31	85,500	\$ 0.31
\$0.11 to \$0.57	0	0.0	\$ 0.00	0	\$ 0.55
	1,875,500	35.3	\$ 0.11	1,875,500	\$ 0.11

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

The following table summarizes information about the Company's Stock Option Plan as at December 31, 2013:

Range of exercise price in dollars	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (months)	Weighted average exercise price	Number of options	Weighted average exercise price
Up to \$0.05	1,832,000	45.5	\$ 0.10	1,832,000	\$ 0.10
\$0.06 to \$0.10	86,500	20.7	\$ 0.31	86,500	\$ 0.31
\$0.11 to \$0.57	39,620	2.7	\$ 0.55	39,620	\$ 0.55
	1,958,120	43.5	\$ 0.12	1,958,120	\$ 0.12

The follow table summarizes the assumptions used in the Black-Scholes option-pricing model for purposes of the option calculations:

	2014	2013
Dividend yield	-	-
Expected volatility	-	-
Risk free interest rate	-	-
Forfeiture rate	-	-
Expected life (years)	-	-
Weighted average fair value of options	-	-

13. Contributed surplus

The following table presents the reconciliation of contributed surplus with respect to expired warrants:

	September 30, 2014	December 31, 2013
Beginning of period	\$ 4,630,094	\$ 4,630,094
Expired warrants	-	-
End of period	\$ 4,630,094	\$ 4,630,094

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

14. Per share amounts

The following table presents the reconciliation between basic and diluted income per share:

	Three months ended September 30, 2014	September 30, 2013	Nine months ended September 30, 2014	September 30, 2013
Net income (loss)	<u>\$ (204,413)</u>	<u>\$ (328,676)</u>	<u>\$ (811,172)</u>	<u>\$ (1,570,624)</u>
Weighted average number of common shares outstanding:				
Basic	194,288,356	667,137,424	194,288,356	628,222,002
Impact of stock options and warrants assumed exercised	-	-	-	-
Diluted	<u>194,288,356</u>	<u>667,137,424</u>	<u>194,288,356</u>	<u>628,222,002</u>
Per share amounts				
Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>(0.00)</u>	<u>\$ (0.00)</u>

In calculating diluted common share amounts for the period ended September 30, 2014, the Company excluded 1,875,500 outstanding options (September 30, 2013 – 10,798,100) because the exercise price was greater than the average market price of its common shares in that year.

15. Supplementary information

Change in non-cash working capital:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Trade and other receivables	\$ 80,765	\$ (5,761)	\$ 68,229	\$ 55,106
Inventory	36,183	16,051	44,129	293,478
Prepaid expenses and other	(21,632)	(3,916)	(35,808)	153,555
Trade and other payables	(154,078)	(522,187)	(342,979)	(407,170)
Customer deposits	209,258	(2,655)	54,745	111,324
	<u>\$ 150,496</u>	<u>\$ (518,468)</u>	<u>\$ (211,684)</u>	<u>\$ 206,293</u>
Other information:				
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

16. Related party transactions

- (a) During the period, the Company incurred legal costs in the amount of \$34,605 (nine months ended September 30, 2013 - \$107,370) to a law firm in which a former officer is a partner of the law firm, of which \$236,584 (December 31, 2013 - \$220,180) is included in trade and other payables. These costs have been included in general and administrative expenses on the consolidated statement of operations. These transactions were based on normal market rates.

During the period, the Company incurred legal costs in the amount of \$2,610 (nine months ended September 30, 2013 - \$Nil) to an officer of the Company, of which \$Nil (December 31, 2013 - \$Nil) is included in trade and other payables. These costs have been included in general and administrative expenses on the consolidated statement of operations. These costs were based on normal market rates.

- (b) During the period, the Company incurred a total of \$39,125 (nine months ended September 30, 2013 - \$62,219) for professional financial services payable to a private corporation controlled by a former officer of the Company, of which \$Nil (December 31, 2013 - \$1,575) is included in trade and other payables. These costs have been included in general and administrative expenses on the consolidated statement of operations. These transactions were based on normal market rates.

During the period, the Company incurred a total of \$11,250 (nine months ended September 30, 2013 - \$Nil) for professional financial services payable to a private corporation controlled by an officer of the Company, of which \$Nil (December 31, 2013 - \$Nil) is included in trade and other payables. These costs have been included in general and administrative expenses on the consolidated statement of operations. These transactions were based on normal market rates.

- (c) During the period, the Company incurred a total of \$10,000 (nine months ended September 30, 2013 - \$Nil) for professional services payable to a private corporation controlled by a director and officer of the Company, of which \$Nil (December 31, 2013 - \$10,500) is included in trade and other payables. These costs have been included in general and administrative expenses on the consolidated statement of operations. These transactions were based on normal market rates.

- (d) During the period, the Company incurred a total of \$77,937 (nine months ended September 30, 2013 - \$Nil) for inventory purchases payable to a related corporation, of which \$Nil (December 31, 2013 - \$98,862) is included in trade and other payables. These costs have been included in cost of sales on the consolidated statement of operations.

- (e) During the period, the Company sold a total of \$16,707 (nine months ended September 30, 2013 - \$Nil) of products to a related corporation, of which \$Nil (December 31, 2013 - \$Nil) is included in trade and other receivables. These revenues have been included in revenues on the consolidated statement of operations.

- (f) As discussed in Note 9 above, a director and officer of the Company paid for expenses of \$100,787 on behalf of the Company, which is included in "Due to director" in the consolidated statement of financial position. The advance is non-interest bearing and has no fixed terms of repayment.

- (g) Key management personnel compensation - The Company has determined that the key management personnel of Company consists of its officers and directors. The compensation included in general and administrative expenses and share-based payments relating to key management personnel for the period was \$205,046 (2013 - \$230,803).

Imaging Dynamics Company Ltd.

Notes to the Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

(Unaudited)

17. Capital risk management

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 and sales of its digital imaging products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' deficiency and the long-term debt which consists of the following:

	September 30, 2014	December 31, 2013
Long-term debt	\$ 1,120,000	\$ 1,045,025
Shareholders' deficiency	(1,455,719)	(644,547)
Capital	<u>\$ (335,719)</u>	<u>\$ 400,478</u>

The Company manages the capital structure and makes adjustments 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 equity or issue new debt. The Company's long-term debt contains general security restrictions over cash and cash equivalents and has debt covenants, which were all waived effective June 8, 2012 as described in Note 8.

The Company is currently reviewing its capital resources requirement to ensure they are sufficient to carry its development plans and operations through the next fiscal year (see Note 2).

18. Financial risk management

The Company is exposed to a variety of financial risks by virtue of its activities, including currency risk, credit risk, interest rate risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is supervised by the Chief Executive Officer under the direction and guidance from the Company's Board of Directors. This Company identifies and evaluates financial risks in close cooperation with other management personnel.

The Company is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

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Fair value of financial instruments

	September 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	\$ 364,448	\$ 364,448	\$ 1,254,763	\$ 1,254,763
Trade and other receivables	45,659	45,659	95,903	95,903
	<u>\$ 410,107</u>	<u>\$ 410,107</u>	<u>\$ 1,350,666</u>	<u>\$ 1,350,666</u>
Financial liabilities				
Long-term debt	\$ 1,120,000	\$ 1,120,000	\$ 1,045,025	\$ 1,045,025
Trade and other payables	1,525,718	1,525,718	1,850,120	1,850,120
Due to director	100,787	100,787	103,219	103,219
	<u>\$ 2,746,505</u>	<u>\$ 2,746,505</u>	<u>\$ 2,998,364</u>	<u>\$ 2,998,364</u>

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and due to director approximate fair value due to the short term nature of these instruments. The fair value of the long-term debt is calculated by discounting future debt service payments using an estimated market rate of interest.

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

Long-term debt with carrying value and fair value of \$1,120,000 is classified as Level 2. The initial fair value of the long-term debt was determined based on an estimated market interest rate of 16%. Management determined the interest rate considering the previous interest rate of the long-term debt, the credit risk of the Company and interest rate on loans of other public companies.

Currency risk

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily US dollars. Foreign exchange risk arises from the purchase and sale transactions as well as financial assets and liabilities denominated in foreign currencies.

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A significant change in the currency exchange rates between the Canadian dollar relative to the other currencies could have an effect on the Company's results of operations, financial position or cash flows. Foreign exchange contracts are only entered into for purposes of managing foreign exchange risk and not for speculative purposes. As at September 30, 2014 and December 31, 2013, there were no foreign exchange contracts outstanding.

At September 30, 2014, the Company is exposed to currency risk through the following assets and liabilities denominated in other currencies:

	US Dollars	Euros	HK Dollar	UK Pound Sterling	Swedish Krona
Cash and cash equivalents	\$ 334,228	€ 1,070	HK \$ -	£ -	SEK -
Trade receivables	22,400	-	-	-	-
Trade payables	(816,676)	-	(148,233)	-	-
	\$ (460,048)	€ 1,070	HK\$ (148,233)	£ -	SEK -

At December 31, 2013, the Company is exposed to currency risk through the following assets and liabilities denominated in other currencies:

	US Dollars	Euros	HK Dollar	UK Pound Sterling	Swedish Krona
Cash and cash equivalents	\$ 668,619	€ 1,070	HK\$ 213	£ -	SEK -
Trade receivables	85,597	-	-	-	-
Trade payables	(1,038,863)	-	(43,930)	-	-
	\$ (284,647)	€ 1,070	HK\$ (43,717)	£ -	SEK -

Based on the above net exposures as at September 30, 2014 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against other currencies would result in an increase or decrease of approximately \$51,396 (nine months ended September 30, 2013 - \$39,000) in the Company's net loss.

Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company manages credit risk by maintaining bank accounts with Tier 1 banks. Any short-term investment, included in cash and cash equivalents would be composed of financial instruments issued by Canadian banks. The Company's receivables consist of trade receivables from the sale of products. Trade receivables include, amounts receivable for normal terms and extended terms, which are generally made to credit worthy purchasers. The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through dealers, distributors and original equipment manufacturing partners.

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Most of the Company's distribution partners have income streams from various sources and have an established history of providing goods and services to the health care industry. The Company does not usually sell to the end user and as such has limited recourse in collecting any delinquent balances. In cases where collection is in question, the Company has the ability to remotely disable the equipment (in cases where an end user has not paid), not provide any warranty support or warranty parts to a dealer that has not paid, remove the dealer as a qualified Company dealer as well as any and all legal recourse measures. Historically, the Company has experienced collection issues with its customers. Accordingly, the Company views credit risks on these amounts as moderate and as normal course of business especially due to the global economic events. At September 30, 2014, the Company recognized an allowance for doubtful accounts of \$670,912 (December 31, 2013 - \$667,270). The bad debt provision as at September 30, 2014 is net of amounts collected from amounts previously provided for. If the current economic conditions continue to decline, future allowances may be necessary.

The carrying amount of trade and other receivables and cash and cash equivalents represents the maximum credit exposure. The Company does have an allowance for doubtful accounts and monitors collectability on an on-going basis to determine whether amounts receivable are a concern.

Aging of trade receivables as at September 30, 2014 and December 31, 2013 is as follows:

	September 30, 2014	December 31, 2013
Not past due	\$ 24,155	\$ 18,910
Past due 31 – 180 days	33,547	47,782
Past due 181 – 365 days	2,878	7,902
Over 366 days	639,548	688,579
	700,128	763,173
Allowance for doubtful accounts	(670,912)	(667,270)
Total	\$ 29,216	\$ 95,903

One customer represented 58% of revenue during 2014 compared to 65% during 2013. This customer represented more than 10% of revenue in either period.

One vendor, a related party, represented 33% of purchases during 2014 compared to one vendor representing 37% during 2013. These vendors represented more than 10% of purchases in either period.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The risk related to the Company's Loan is limited due to the fixed interest rate.

The risk that the Company will realize a loss as a result of a decline in the fair value of any short-term investments included in cash and cash equivalents is limited due to the short term nature of the assets.

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Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due (See Note 2). The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company.

The Company currently settles its financial obligations out of cash. In order to meet its financial liabilities, the Company relies on collecting its trade and other receivable in a timely manner, sale of inventory and by maintaining sufficient cash in excess of anticipated needs.

The following are the contractual maturities of financial liabilities and other commitments of the Company as at September 30, 2014:

Financial liabilities and commitments	<u>< Year</u>	<u>> Year</u>
Long-term debt	\$ 1,120,000	\$ -
Trade and other payables	1,764,296	-
Commitments	<u>119,717</u>	<u>-</u>
	<u>\$ 3,004,013</u>	<u>\$ -</u>

The following are the contractual maturities of financial liabilities and other commitments of the Company as at December 31, 2013:

Financial liabilities and commitments	<u>< Year</u>	<u>> Year</u>
Long-term debt	\$ 1,000,000	\$ -
Trade and other payables	2,293,163	-
Commitments	<u>95,661</u>	<u>-</u>
	<u>\$ 3,388,824</u>	<u>\$ -</u>

It is the Company's intention to meet these obligations through the collection of trade and other receivables, sale of inventory and the receipt of future progress payments on amounts not yet invoiced, as well as looking for other external financing sources.

19. Segmented information

The Company determines its operation segments based on internal information regularly reviewed by management to allocate resources and assess performance. The Company is organized into five sales geographic areas within one operating segment consisting of Asia-Pacific, Canada, Europe, Middle East and Africa ("EMEA") & South Asia ("SA"), Latin America and the United States. These regions are organized to manage sales and distribution channels and are not maintained or managed as operating regions.

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The Company sells through dealers, distributors and OEM partners globally and predominantly through OEM partners in Asia-Pacific.

Segmented revenues for the three months ended September 30, 2014 and 2013 are as follows:

2014	Asia Pacific	Canada	EMEA & SA	Latin America	United States	Total
Revenues, net	\$ 260,067	\$ 3,810	\$ 1,527	\$ 61,335	\$ 195,082	\$ 521,821

2013	Asia Pacific	Canada	EMEA & SA	Latin America	United States	Total
Revenues, net	\$ 447,141	\$ 3,875	\$ 2,938	\$ 4,468	\$ 136,570	\$ 594,992

Segmented revenues for the nine months ended September 30, 2014 and 2013 are as follows:

2014	Asia Pacific	Canada	EMEA & SA	Latin America	United States	Total
Revenues, net	\$ 1,048,351	\$ 7,495	\$ 5,119	\$ 67,286	\$ 507,566	\$ 1,635,817

2013	Asia Pacific	Canada	EMEA & SA	Latin America	United States	Total
Revenues, net	\$ 815,441	\$ 30,519	\$ 8,138	\$ 122,014	\$ 456,244	\$ 1,432,326

All of the property, plant and equipment is located in Canada and Hong Kong, China.

20. Commitments and contingencies

a) The Company is committed to the following payments:

	Facility	Auto / Equipment	Total
2014	\$ 37,478	\$ 1,986	\$ 39,464
2015	74,957	5,296	80,253
	\$ 112,435	\$ 7,282	\$ 119,717

b) Bank guarantee for US\$148,700 was issued on July 24, 2007 in relation to an international tender contract. The bank guarantee originally expired on December 31, 2010, was renewed twice and currently expires on March 7, 2016 on completion of the performance as per the terms of the contract.

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- c) A general security agreement has been issued by the Company to a vendor who has a first charge on the assets of the Company and the long-term debt is secured by a second charge to the group of shareholders (See Note 8). The Vendor has signed a forbearance agreement with the Company and has agreed not to enforce its security rights for the amount payable to them (included in trade and other payables) in exchange for a payment plan which will pay down the balance owing to the Vendor by September 13, 2013. As per this forbearance agreement if this payment plan is complied with in full by the Company, then the Vendor has agreed to waive \$314,245. This amount is currently included in the trade and other payables at September 30, 2014 which will only be reversed and recognized after the final payment is completed. The Company is currently in default of this forbearance agreement and is working with the vendor to remedy its default.
- d) The Company is involved in a legal claim with the previous law firm of the Company, in which a former officer of the Company is a partner of the law firm, in respect of unpaid legal fees, which are recorded in trade and accounts payable as at September 30, 2014. (See Note 16(a)). The Company intends to vigorously defend this legal claim.

21. Expenses by nature

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Sales and marketing	\$ 153,866	\$ 230,585	\$ 523,718	\$ 615,986
General and administrative	212,239	208,135	697,027	946,010
Production and manufacturing	65,660	106,142	202,538	361,021
Research and development	962	37,000	17,160	161,462
	<u>\$ 432,727</u>	<u>\$ 581,862</u>	<u>\$ 1,440,443</u>	<u>\$ 2,084,479</u>
	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Employee related costs	\$ 213,577	\$ 276,599	\$ 678,995	\$ 1,002,810
Travel and related costs	45,099	41,324	139,257	121,922
Professional fees	17,846	82,132	169,724	354,130
Facility and related costs	57,445	73,265	188,625	182,842
Communications	5,179	10,516	19,031	30,709
Administrative costs	16,270	41,260	117,090	173,596
Marketing costs	63,367	33,413	71,982	73,199
Research costs	9,728	588	23,752	71,855
Insurance costs	4,216	22,765	31,987	73,416
	<u>\$ 432,727</u>	<u>\$ 581,862</u>	<u>\$ 1,440,443</u>	<u>\$ 2,084,479</u>