

IMAGING DYNAMICS COMPANY LTD.

FINANCIAL RESULTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016



Your Global Medical Imaging Technology Provider

Management Report

To the Shareholders of Imaging Dynamics Company Ltd.

The accompanying unaudited interim consolidated financial statements for the three and six months ended June 30, 2016 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 and accurate financial reports.

Signed: "Yucheng Zhou"

Yucheng Zhou

President and Chief Executive Officer
August 26, 2016

Signed: "Eugene Woychyshyn"

Eugene Woychyshyn

Chief Financial Officer

Imaging Dynamics Company Ltd.

Interim Consolidated Statements of Financial Position

As at	note*	June 30, 2016 (unaudited)	December 31, 2015 (audited)
Assets			
Current			
Cash and cash equivalents		\$4,036,159	\$10,128,633
Trade and other receivables	5	1,405,906	169,637
Inventory	6	1,117,094	205,664
Prepaid expenses and other		2,236,141	339,161
		8,795,300	10,843,095
Non-current assets			
Property, plant and equipment	7	563,462	98,816
Intangible assets	8	177,960	25,043
		\$9,536,722	\$10,966,954
Liabilities			
Current			
Trade and other payables	9	\$4,255,765	\$2,317,683
Customer deposits		61,208	16,290
Lease inducement		11,548	14,426
Warranty provision		160,563	156,139
Deferred financing	12	-	4,835,600
Current portion of long term-debt	10	-	875,000
		4,489,084	8,215,138
Long-term liabilities			
Convertible debentures	11	11,387,950	5,886,180
Lease inducement		57,738	28,852
Total liabilities		15,934,772	14,130,170
Shareholders' deficiency			
Share capital	13	78,147,450	78,147,450
Share-based payments reserve	14	7,186,107	7,186,107
Contributed surplus	15	5,329,793	5,084,398
Other comprehensive income		(343,454)	92,194
Deficit		(96,717,946)	(93,673,365)
		(6,398,050)	(3,163,216)
		\$9,536,722	\$10,966,954
Going concern	2		
Commitments and contingencies	22		
Subsequent events	24		

* the accompanying notes are an integral part of these financial statements

On behalf of the Board:

"Signed" Yucheng Zhou
Yucheng Zhou, Chief Executive Officer

"Signed" Paul Lin
Paul Lin, Director

Imaging Dynamics Company Ltd.

Interim Consolidated Statements of Operations & Comprehensive Loss (unaudited)

	note*	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
Revenues		\$1,049,002	\$617,418	\$1,885,434	\$1,102,803
Cost of sales		799,326	308,436	1,391,564	524,877
Gross profit		249,676	308,982	493,870	577,926
Expenses					
Sales and marketing	23	730,750	299,734	1,043,784	478,379
General and administrative	23	756,086	269,093	1,490,570	489,894
Production and manufacturing	23	82,702	74,389	202,348	140,149
Research and development	23	206,051	19,716	281,457	30,951
Foreign exchange loss (gain)		(12,765)	3,418	131,872	43,856
Warranty provision		1,349	1,600	7,761	5,215
Share based payment	14	-	302,158	-	302,158
Bad debt expense (recovery)		(31,024)	-	(25,106)	-
Amortization of property, plant and equipment		21,236	8,161	33,391	16,323
Amortization of intangible assets		2,445	14,462	9,557	28,924
		1,756,830	992,732	3,175,634	1,535,850
Loss before finance costs		(1,507,154)	(683,750)	(2,681,764)	(957,924)
Finance costs					
Interest expense		243,442	14,959	456,633	29,753
Interest and other income		(1,597)	-	(3,053)	-
Gain on settlement of debt		-	(78,359)	-	(78,359)
Income before taxes		(1,748,999)	(620,350)	(3,135,344)	(909,318)
Provision for income taxes (recovery)		-	-	(90,763)	-
Net income		(1,748,999)	(620,350)	(3,044,581)	(909,318)
Other comprehensive income					
Foreign currency translation loss		107,348	-	435,648	-
Net loss and comprehensive loss		(\$1,856,347)	(\$620,350)	(\$3,480,229)	(\$909,318)
Net loss per share, basic and diluted	16	\$(0.03)	\$(0.01)	\$(0.05)	\$(0.02)

* the accompanying notes are an integral part of these financial statements

Imaging Dynamics Company Ltd.

Interim Consolidated Statements of Changes in Shareholders' Deficiency (unaudited)

	note*	Share Capital	Share- based payments reserve	Contributed surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Deficiency
Balance, January 1, 2015		\$76,345,461	\$6,846,778	\$4,630,094	\$ -	(\$89,845,112)	(\$2,022,779)
Issued for cash - private placement (net of issue costs)	13	1,801,989					1,801,989
Warrants	13			187,570			187,570
Stock based payments	14		339,329				339,329
Convertible debentures (net of deferred tax)	11			266,734			266,734
Foreign exchange gain on translation					92,194		92,194
Loss for the year						(3,828,253)	(3,828,253)
Balance December 31, 2015		78,147,450	7,186,107	5,084,398	92,194	(93,673,365)	(3,163,216)
Convertible debentures (net of deferred tax)	11			245,395			245,395
Foreign exchange gain (loss) on translation					(435,648)		(435,648)
Loss for the year						(3,044,581)	(3,044,581)
Balance June 30, 2016		\$78,147,450	\$7,186,107	\$5,329,793	(\$343,454)	(\$96,717,946)	(\$6,398,050)

* the accompanying notes are an integral part of these financial statements

Imaging Dynamics Company Ltd.
Interim Consolidated Statements of Cash Flows (unaudited)

	Three months ended June 30,		Six months ended June 30,		
	note*	2016	2015	2016	2015
Cash provided by (used in):					
Operating activities					
Net income (loss)		(\$1,748,999)	(\$620,350)	(\$3,044,581)	(\$909,318)
Items not affecting cash					
Amortization of property, plant and equipment		21,236	8,161	33,391	16,323
Amortization of intangible assets		2,445	14,452	9,557	28,914
Foreign exchange loss		27,633	-	178,733	-
Gain on extinguishment of debt		-	(78,359)	-	(78,359)
Loan accretion and accrued interest		243,442	14,959	456,633	29,753
Share based payments		-	302,158	-	302,158
Warranty provisions		1,349	1,610	4,424	5,215
Deferred tax recovery		-	-	(90,763)	-
		(1,452,894)	(357,369)	(2,452,606)	(605,314)
Change in non cash working capital	17	(1,497,289)	(279,475)	(2,369,542)	(668,594)
		(2,950,183)	(636,844)	(4,822,148)	(1,273,908)
Investing activities					
Additions to property, plant and equipment	7	(305,440)	-	(498,037)	-
Additions to intangible assets	8	(153,769)	-	(162,474)	-
		(459,209)	-	(660,511)	-
Financing activities					
Issuance of common shares net of issue costs		-	-	-	1,801,990
Convertible debentures net of issue costs		-	-	5,721,306	-
Deferred financing		-	-	(4,835,600)	-
Warrants reserve		-	-	-	187,570
Repayment of long-term debt		-	-	(875,000)	(120,000)
Advance from director		-	(54,350)	-	(98,579)
		-	(54,350)	10,706	1,770,981
Effect of foreign exchange on cash		(122,941)	-	(620,521)	-
Net increase (decrease) in cash and cash equivalents		(3,532,333)	(691,194)	(6,092,474)	497,073
Cash and cash equivalents, beginning of period		7,568,492	1,453,579	10,128,633	265,312
Cash and cash equivalents, end of period		\$4,036,159	\$762,385	\$4,036,159	\$762,385

* the accompanying notes are an integral part of these financial statements

Imaging Dynamics Company Ltd.

Notes to the Interim Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

1. Nature of the organization

Imaging Dynamics Company Ltd. (the "Company" or "IDC") is a public company incorporated under the laws of the Province of Alberta. The Corporation is listed on the TSX Venture Stock Exchange ("TSXV"), trading under the symbol "IDL". The address of its registered office is #130, 3510 29th Street NE, Calgary, Alberta, Canada, T1Y 7E5.

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

These interim unaudited 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. As of June 30, 2016, the Company had positive working capital of \$4,306,216 (working capital at December 31, 2015—\$2,627,957), negative cash flows from operations for the six months of \$4,822,148 (year ended December 31, 2015—\$2,812,463) and a net loss for the six months of \$3,044,581 (year ended December 31, 2015—\$3,828,253) and deficit at June 30, 2016 of \$96,717,946 (December 31, 2015—\$93,673,365). 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 additional new financing arrangements and new capital, the outcome of which is uncertain.

During 2016 and 2015, the Company raised convertible debentures of \$10.8 million on a net basis, and issued share capital and warrants in 2015 for net proceeds of \$2.0 million. Note 24(a) to these unaudited financial statements describes a further non-brokered issue of convertible debentures with gross proceeds of \$6 million. The Company will 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 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 interim unaudited consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and the interpretations of the International Financial Reporting Standards Interpretations Committee ("IFRIC").

Imaging Dynamics Company Ltd.

Notes to the Interim Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

3. Basis of preparation *(continued)*

These interim unaudited consolidated financial statements were authorized for issuance on August 26, 2016, by the Board of Directors.

b) Basis of measurement

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

c) Functional and presentation currency

The Company measures the transactions in its entities using the currency of the primary economic environment in which the entity operates (functional currency). These consolidated financial statements are presented in Canadian dollars (CAD) which is the functional currency of the parent entity. The functional currency of the Chinese subsidiaries is the Renminbi ("CNY").

d) Use of estimates, assumptions and judgments

The preparation of these interim unaudited consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenues and expenses for the period reported. Although these estimates are based on management's best knowledge of amounts, events or actions, actual results ultimately may differ from these estimates.

Estimates, assumptions and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised as future confirming events occur.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements are included in the following notes:

(i) Estimates

Allowance for doubtful accounts – Management continuously monitors and reviews its trade receivables and makes its best assumption on collectability of these trade receivables (Note 5). Any uncertainty in these assumptions could impact the value of the trade receivables reported in these consolidated financial statements.

Inventory obsolescence - Management reviews and estimates the carrying value of inventory periodically and records a provision for inventory obsolescence for specific inventory items. These estimates by their nature are subject to uncertainty and the impact of the provision for inventory obsolescence expense could be material in these consolidated financial statements.

Property, plant and equipment and intangible assets – Depreciation and amortization expense and impairment of assets are recorded based on management's estimate of the useful life of the assets, market conditions, and fair value of assets or projected cash flows derived from the use of the assets, which in turn determines the depreciation/amortization rates and asset impairment calculations

Imaging Dynamics Company Ltd.

Notes to the Interim Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

3. Basis of preparation *(continued)*

(Notes 7 and 8). By their nature, these estimates are subject to uncertainty and the impact on the consolidated financial statements of future periods could be material.

Share-based payments reserve – Management uses the Black-Scholes option pricing model to determine the fair value of the share-based payments (Note 14). Management is required to make several assumptions working through the Black-Scholes model. By its nature, Black-Scholes option pricing model assumptions are subject to uncertainty and could impact the share-based payments expense and reserve on these consolidated financial statements.

Warranty provision – Management estimates and recognizes a warranty expense at the time of sale and a provision is recognized. Management reviews historical information of warranty related issues, warranty period provided at time of sale, and warranty received from its vendors in determining the amount of provision that is required to be recognized. These assumptions by their nature are subject to uncertainty and the impact of warranty expense and warranty provision could be material in these consolidated financial statements.

Deferred taxes – Tax interpretations, regulations and legislation are subject to change, and as such, deferred taxes are subject to measurement uncertainty. Deferred taxes are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings and which tax rate is expected to apply when the temporary differences reverse.

Convertible debentures – The initial value of the convertible debentures was determined based on an estimated market interest rate of 8.28%. Management determined the interest rate considering the previous interest rate of the long-term debt, the credit risk of the Company and the interest rate on similar loans of other public companies.

(ii) Judgments

Cash generating units (“CGUs”) - The Company uses judgment in determining the grouping of assets to identify its CGUs for purposes of testing for impairment of property, plant and equipment and intangible assets. The determination of what constitutes a CGU is subject to management’s judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of the assets, each CGU is compared to the greater of its fair value less costs to sell and its value in use.

Contingent liability – Management reviews all contingent liabilities and uses its best estimates and judgment based on the facts and information available at its disposal to determine if a provision is necessary to be recorded in these consolidated financial statements (Note 22). Should those assumptions and judgments not materialize, there could be an impact on these consolidated financial statements.

4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently by the Company and its subsidiaries to all periods presented in these consolidated financial statements.

Imaging Dynamics Company Ltd.

Notes to the Interim Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

4. Summary of significant accounting policies *(continued)*

a) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly-owned subsidiaries: IDC USA, Inc., 1370509 Alberta Inc., IDC International Digital Medical Device Co., Ltd, IDC International Medical Equipment (Beijing) Ltd., and Imaging Dynamics Company (Hong Kong) Ltd.

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

b) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issuance.

c) Inventory

Inventory consists of purchased components and is stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Cost of sales represents movement in inventory for the year.

d) Property, plant and equipment

All property, plant and equipment have been recorded at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Costs associated with equipment upgrades that result in increased capabilities or performance enhancements of property and equipment are capitalized if it is probable that the future economic benefits embodied within the expenditure or asset will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing incurred to repair or maintain property, plant and equipment are expensed as incurred.

Imaging Dynamics Company Ltd.

Notes to the Interim Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

4. Summary of significant accounting policies *(continued)*

d) Property, plant and equipment *(continued)*

When parts of an asset classified within property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is recognized in the consolidated statement of operations and comprehensive loss and is calculated over the depreciable amount, which is the cost of an asset less its estimated residual value. Residual values and useful lives, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

Depreciation is charged so as to write off the cost of these assets less residual value over their estimated useful economic lives, for the following classes of assets:

Technical, lab and computer equipment	30% declining balance straight line
Office equipment	20% declining balance straight line
Tradeshow equipment	3 to 4 years straight-line
Leasehold improvements	Straight-line over lease term

e) Intangible assets

Intangible assets with definite useful lives are recorded at cost less accumulated amortization and impairment losses and are comprised of digital X-ray technology patents, licenses and software. Digital X-ray technology patents and licenses are amortized over a 10-year period on a straight line basis and software is amortized on a 30% declining balance basis, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in the consolidated statement of operations and comprehensive loss as incurred. Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

f) Impairment

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Imaging Dynamics Company Ltd.

Notes to the Interim Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

4. Summary of significant accounting policies *(continued)*

f) Impairment *(continued)*

(i) Financial assets *(continued)*

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the consolidated statement of operations and comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statement of operations and comprehensive loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an estimate of the asset's recoverable amount is determined. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed each year.

For the purpose of impairment testing, assets are grouped together into the smallest 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 recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

In calculating the 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.

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 the consolidated statement of operations and comprehensive 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 CGU on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the impairment 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 and amortization, if no impairment loss had been recognized.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

4. Summary of significant accounting policies *(continued)*

g) Financial instruments

Financial instruments are any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial instruments are identified by the Company through a review of typical financial transactions and risk management activities. Once identified, the financial instruments are classified and measured as disclosed below.

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

(i) Financial assets and liabilities at fair value through profit or loss ("FVTPL")

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The Company has no items classified in this category.

Financial instruments at FVTPL are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations and comprehensive loss with other gains or losses in the period in which they arise. Financial assets and liabilities at FVTPL are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which is classified as non-current.

(ii) Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company has no items classified in this category.

AFS financial assets are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. AFS financial assets are classified as non-current, unless the assets mature within twelve months of the statement of financial position date, or management expects to dispose of it within twelve months of the statement of financial position date.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade and other receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

4. Summary of significant accounting policies *(continued)*

(iv) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost include trade and other payables, deferred financing, current portion of long-term debt, convertible debentures and due to director balances. Trade and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method.

All other financial liabilities measured at amortized cost are recognized initially at fair value, net of any transaction costs incurred, and subsequently measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months of the statement of financial position date. Otherwise, they are presented as non-current liabilities.

h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic resources will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information relating to the nature, frequency and average cost of warranty claims. Claims are assessed at each reporting date and adjustments to estimates are made based on updated historical information.

i) Revenue recognition

Substantially all the revenue earned is the result of equipment sales. Revenue related to equipment sales is recognized when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and,
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

4. Summary of significant accounting policies *(continued)*

i) Revenue recognition *(continued)*

Revenue with respect to the performance of services is recognized when all of the following conditions have been satisfied:

- the services have been performed;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and,
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue has been recorded on a gross basis as the Company acts as principal by:

- bearing the primary responsibility to provide the goods and fulfill the order;
- incurring inventory risk;
- establishing prices; and,
- bearing credit risk.

The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through independent dealers and distributors and original equipment manufacturer ("OEM") partners. The dealers and OEM's are responsible for installation and after sales service to the end user. Once the equipment is shipped and title has transferred to the dealer or OEM, the Company does not have any contractual obligation to ensure the equipment's proper installation and functioning.

j) Deferred revenue

Deposits that have been paid for by customers but will qualify for recognition within the next twelve months of the statement of financial position date under the Company's policies is reflected in current liabilities as deferred revenue. Included in deferred revenue are payments received in advance associated with the sale of the Company's products.

Deposits that has been paid for by customers but will not qualify for recognition within the next twelve months of the statement of financial position date under the Company's policies is reflected in non-current liabilities as long-term deferred revenue. The Company has no long-term deferred revenue at June 30, 2016 or December 31, 2015.

k) Segment reporting

The Company is organized into two sales geographic areas within one operating segment consisting of China and the Americas. These regions are organized to manage sales and distribution channels and are currently not maintained or managed as operating regions.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

4. Summary of significant accounting policies *(continued)*

l) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the consolidated statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Company follows the liability method of accounting for deferred taxes. Under this method deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

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

m) Research and development

Research costs are expensed as incurred. Development costs are deferred if the Company can demonstrate (i) the technical feasibility of completing the product or process, (ii) the intention to complete the project, (iii) the ability to use or sell the product in commercial production, (iv) future economic benefits that the product or process can generate, including the existence of a market for the output of the project, (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the product, and (vi) the ability to measure reliably the expenditure attributable to the project during development. If these criteria are not met, development costs are expensed as incurred. If the costs are deferred, they are amortized over their useful lives on a straight-line basis commencing with commercial production.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

4. Summary of significant accounting policies *(continued)*

n) Foreign currency

Transactions and non-monetary balances denominated in a foreign currency are translated into Canadian dollars using the exchange rates at the dates of the transactions. Monetary balances are translated using the rate at the date of the consolidated statement of financial position. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the consolidated statement of operations and comprehensive loss.

Foreign exchange differences resulting from converting the subsidiaries' accounts from their functional currencies to the Canadian dollar, are recorded in accumulated other comprehensive income ("OCI").

o) Share-based payments

The fair value of any stock options granted to directors, officers and employees is recorded as an expense over the vesting period with a corresponding increase recorded to the share-based payments reserve. The fair value of the share-based payments is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 14. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in the share-based payments reserve is recorded as an increase to share capital.

p) Per share amounts

Basic loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the period. Diluted loss per common share is computed by dividing the net loss by the diluted weighted average number of common shares outstanding for the period. In the calculation of diluted per share amounts, outstanding stock options and warrants are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. In loss per share situations, the diluted per share amount is the same as that for basic, as all factors are anti-dilutive.

q) Accounting standards adopted

The Company adopted the following standards or amendments that were effective at January 1, 2016:

IAS 1 Presentation of Financial Statements

In December 2014, the IASB issued narrow-focus amendments to IAS 1 Presentation of Financial Statements to clarify existing requirements relating to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this standard was effective for fiscal years beginning on or after January 1, 2016. This amended standard did not have a material effect on the Company.

4. Summary of significant accounting policies *(continued)*

r) Accounting standards issued but not yet adopted

IAS 7 Statement of Cash Flows

In January 2016, the IASB issued Disclosure Initiative – Amendments to IAS 7 *Statement of Cash Flows*, which require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This standard is effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted and entities can apply this amendment prospectively.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*, clarifying the accounting for deferred tax assets for unrealized losses. Entities must consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Guidance is also provided on how to determine future taxable profits and explains the circumstances whereby taxable profit may include the recovery of some assets for more than their carrying amount. This standard is effective for periods beginning on or after January 1, 2017. Early adoption of the standard is permitted.

IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by the IASB on December 16, 2011 and will replace the IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having two categories: amortized cost and fair value.

The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial asset. IFRS 9 also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. This standard is mandatorily effective from January 1, 2018, with earlier application permitted.

IFRS 15 – *Revenue from Contracts and Customers* ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or

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Notes to the Unaudited Consolidated Financial Statements
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4. Summary of significant accounting policies *(continued)*

r) Accounting standards issued but not yet adopted *(continued)*

modified retrospective approach when adopting this standard, and it is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 – *Leases* - On January 13, 2016, the IASB issued the final version of IFRS 16 *Leases*. The new standard will replace IAS 17 *Leases* and is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets.

IFRS 2 – *Share-based payment* – In June 2016 the IASB issued amendments to IFRS 2 to be applied for annual periods beginning on or after January 1, 2018 with early adoption permitted. The amendments clarify how to account for certain types of share-based payment transactions.

The Company is currently assessing the impact of the new standards on these consolidated financial statements but does not anticipate the standards having a significant impact on the Company's consolidated financial statements.

5. Trade and other receivables

	note	June 30, 2016	December 31, 2015
Trade receivables	20	\$1,379,413	\$168,548
GST and other		26,493	1,089
		\$1,405,906	\$169,637

Allowance for doubtful accounts of \$193,709 (year ended December 31, 2015 - \$235,267) has been netted against trade receivables (see Note 20).

6. Inventory

	June 30, 2016	December 31, 2015
Inventory net of allowance for obsolescence	\$1,117,094	\$205,684

During the period ended June 30, 2016, the Company recorded a provision for inventory obsolescence of \$24,906 (Period ended June 30, 2015 - \$ nil).

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

7. Property, plant and equipment

Cost	Technical, lab and computer equipment	Leasehold improvements	Office equipment	Tradeshow equipment	Total
Balance, December 31, 2014	\$1,967,220	\$95,362	\$492,738	\$1,099,100	\$3,654,420
Additions			6,463		6,463
Balance, December 31, 2015	1,967,220	95,362	499,201	1,099,100	3,660,883
Additions	70,465	377,130	50,442	-	498,037
Disposals		(95,362)	(8,404)		(103,766)
Balance June 30, 2016	\$2,037,685	\$377,130	\$541,239	\$1,099,100	\$4,055,154
Accumulated amortization					
Balance, December 31, 2014	\$1,894,729	\$95,362	\$434,619	\$1,099,100	\$3,523,810
Amortization	21,748		16,509		38,257
Balance, December 31, 2015	1,916,477	95,362	451,128	1,099,100	3,562,067
Amortization	13,841	11,566	7,984	-	33,391
Disposals		(95,362)	(8,404)		(103,766)
Balance June 30, 2016	\$1,930,318	\$11,566	\$450,708	\$1,099,100	\$3,491,692
Net book value as at:					
December 31, 2015	\$50,743	\$0	\$48,073	\$0	\$98,816
June 30, 2016	\$107,367	\$365,564	\$90,531	\$0	\$563,462

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

8. Intangible assets

Cost	Software	Digital X-ray technology patents and licenses	Total
Balance, December 31, 2014 and 2015	\$742,882	\$391,964	\$1,134,846
Additions	12,737	149,737	162,474
Balance June 30, 2016	\$755,619	\$541,701	\$1,297,320
Accumulated amortization			
Balance December 31, 2014	\$680,710	\$347,888	\$1,028,598
Amortization	42,009	39,196	81,205
Balance December 31, 2015	722,719	387,084	1,109,803
Amortization	4,677	4,880	9,557
Balance June 30, 2016	\$727,396	\$391,964	\$1,119,360
Net book value as at:			
December 31, 2015	\$20,163	\$4,880	\$25,043
June 30, 2016	\$28,223	\$149,737	\$177,960

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

9. Trade and other payables

	June 30, 2016	December 31, 2015
Trade payables	\$3,452,581	\$1,853,793
Interest payable	431,559	94,262
Other payables and accruals	371,625	369,628
Trade and other payables	\$4,255,765	\$2,317,683

10. Long-term debt

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

	June 30, 2016	December 31, 2015
Long-term debt, face value	\$875,000	\$1,120,000
Repaid in the period	(875,000)	(245,000)
Long-term debt	-	875,000
Current portion	-	875,000
Net 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. This loan was secured by a general security agreement that is subordinated to a first charge on the Company's assets to a vendor. The loan payable was repaid in full in the period.

The long-term debt was secured by a second charge to the group of shareholders. This second charge was released by the group of shareholders as of January 21, 2016, but still includes financing statements which will continue to be used to protect all other security interests granted by the Company to members of the group of shareholders.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

11. Convertible Debentures

	June 30, 2016	December 31, 2015
Convertible debentures, face value	\$12,000,000	\$6,250,000
Equity portion of debentures	(701,547)	(365,389)
Amortization of discount	149,105	32,484
Issue costs	(59,608)	(30,915)
Balance, convertible debentures	\$11,387,950	\$5,886,180

All per share amounts have been adjusted for a 5 to 1 consolidation that took place in June 2016 (see note 13).

a) On September 28, 2015, the Company completed a non-brokered private placement financing of unsecured Convertible Debentures for gross proceeds of \$6,250,000 in principal amount. The Convertible Debentures have a maturity date of September 28, 2018, bear interest at a rate of 6.0% per year payable annually, and are convertible into common shares of the Company at the holder's option at a conversion price of \$0.10 per common share for a period of three years on or before September 28, 2018.

The Convertible Debentures are compound financial instruments consisting of the debt instrument and the equity component feature. The debt instrument was recorded at amortized cost using the effective interest method at an annual discount rate of 8.28% over the life of the debenture of 3 years. The gross proceeds of \$6,250,000 were allocated between the debt instrument for \$5,925,441 and to the equity component for \$365,389.

b) On January 22, 2016, the Company completed a non-brokered private placement financing of secured Convertible Debentures for gross proceeds of \$5,750,000 in principal amount. The Convertible Debentures have a maturity date of January 22, 2019, bear interest at a rate of 6.0% per year payable annually, and are convertible into common shares of the Company at the holder's option at a conversion price of \$0.15 per common share for a period of three years on or before January 22, 2019.

The Convertible Debentures are compound financial instruments consisting of the debt instrument and the equity component feature. The debt instrument was recorded at amortized cost using the effective interest method at an annual discount rate of 8.28% over the life of the debenture of 3 years. The gross proceeds of \$5,750,000 were allocated between the debt instrument for \$5,413,842 and to the equity component for \$336,158.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

12. Deferred financing

The Company received \$4,835,600 in 2015 in advance of closing of the Convertible Debentures and has recorded this amount as deferred financing in the Consolidated Statement of Financial Position as at December 31, 2015. The debenture issue closed on January 22, 2016 (Note 11).

13. Share capital

a) Authorized:

An unlimited number of common shares

An unlimited number of non-voting redeemable preferred shares

b) Issued and outstanding:

	<u>Six months ended June 30, 2016</u>		<u>Year ended December 31, 2015</u>	
	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>
Balance, beginning of the year	294,288,356	\$78,147,450	194,288,356	\$76,345,461
Adjust for 5:1 consolidation	(235,430,700)	-	-	-
Issued for cash	-	-	100,000,000	1,812,430
Share issue costs	-	-	-	(10,441)
Balance, end of period	58,857,656	\$78,147,450	294,288,356	\$78,147,450

- i. On February 26, 2015, the Company completed a non-brokered private placement equity financing for 100,000,000 (20,000,000 post consolidation) common shares of the Company at a price of \$0.02 (\$0.10 post consolidation) per share for gross proceeds of \$2,000,000. Each common share subscribed for is entitled to a one-half (1/2) share purchase warrant at a price of \$0.05 (\$0.25 post consolidation) per share for a period of two years. The common shares issued in connection with this private placement were subject to statutory resale restrictions until June 27, 2015 in accordance with applicable securities laws.
- ii. In connection with the private placement of 100,000,000 (20,000,000 post consolidation) common shares, a total of 50,000,000 (10,000,000 post consolidation) warrants were issued to the subscribers. As a result, \$1,812,430 of the gross proceeds of the private placement was allocated to the common shares and \$187,570 to the share purchase warrants. The fair value of the warrants was calculated using the Black-Scholes pricing model with the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 100.00%, (iii) risk free rate of 0.60%, and (iv) an expected life of 1.5 years. The warrants

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

13. Share capital (*continued*)

- ii. entitle the holder to purchase common shares of the Company at a price of \$0.25 (\$0.05 pre-consolidation) per share up to February 23, 2017.

- iii. At a Special Meeting on February 29, 2016 the shareholders approved the Board of Directors to effect, a consolidation (or reverse stock split) of the outstanding Common Shares (the "Share Consolidation"), at a consolidation ratio of one (1) for five (5), (being one (1) post-consolidation common share for every five (5) pre-consolidation common shares). The Share Consolidation was completed on June 29, 2016 and as a result there were 58,857,656 common shares outstanding at June 30, 2016.

14. Share-based payments reserve

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 five years.

During 2015, the Company granted 3,400,000 (17,000,000 pre-consolidation) stock options on May 5, 2015, at a price of \$0.25 (\$0.05 pre-consolidation) per share under the stock option plan. The stock options are exercisable into common shares at a price of \$0.25 (\$0.05 pre-consolidation) per common share for a term of five years from the date of grant. The fair value of the stock options granted was \$302,158 and was calculated using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 287.83%; (iii) risk free rate of 1.07%; (iv) an expected life of 5 years; and (v) a forfeiture rate of 0%.

Imaging Dynamics Company Ltd.
Notes to the Unaudited Consolidated Financial Statements
For the 3 and 6 months ended June 30, 2016 and 2015

14. Share-based payments reserve (continued)

Adjusted for the aforementioned consolidation as at June 30, 2016, 4,031,367 common shares (December 31, 2015 – 2,124,067) remained in reserve. Under the Stock Option Plan, the following options are outstanding as at the dates shown as follows:

	<u>June 30, 2016</u>		<u>December 31, 2015</u>	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of the year	18,808,500	\$0.06	1,833,500	\$0.11
Adjust for 5:1 consolidation	(15,046,800)	\$0.25	-	-
Issued in the period	-		17,000,000	\$0.05
Cancelled / expired in the period	(1,907,300)	\$0.32	(25,000)	\$0.07
Balance, end of period	1,854,400	\$0.26	18,808,500	\$0.06
Options exercisable at the end of the period	1,854,400	\$0.26	18,808,500	\$0.06

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Balance, beginning of the year	\$7,186,107	\$6,846,778
Issued in the period	-	339,329
Balance, end of period	\$7,186,107	\$7,186,107

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

14. Share-based payments reserve (continued)

Stock Option Plan

The following table summarizes information of the Company's Stock Option Plan as at June 30, 2016:

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 \$.25	54,400	46.9	\$0.25	54,400	\$0.25
\$.30 to \$.50	1,800,000	15.1	\$0.50	1,800,000	\$0.50
	1,854,400	45.9	\$0.26	1,854,400	\$0.26

The following table summarizes information of the Company's Stock Option Plan as at December 31, 2015. All numbers have been adjusted for the 5:1 consolidation completed in June 2016:

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 \$.25	3,749,600	49.9	\$0.10	3,749,600	\$0.10
\$.30 to \$.50	12,100	0.2	\$1.50	17,100	\$1.50
	3,761,700	49.8	\$0.30	3,766,700	\$0.55

There were no share-based payments incurred as a result of stock options grants in the period ended June 30, 2016.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

15. Contributed surplus

The following table presents the reconciliation of contributed surplus with respect to warrants and convertible debentures:

	note	June 30, 2016	December 31, 2015
Balance, beginning of year		\$5,084,398	\$4,630,094
Warrants issued in the period	13(b)	-	187,570
Convertible debenture issued		245,395	266,734
Balance, contributed surplus		\$5,329,793	\$5,084,398

16. Per share amounts

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015*	2016	2015*
Net loss for the period	(\$1,748,999)	(\$620,350)	(\$3,044,581)	(\$909,318)
Weighted average number of common shares outstanding	58,857,656	46,191,004	58,857,656	52,191,004
Basic and diluted loss per share	\$(0.03)	\$(0.01)	\$(0.05)	\$(0.02)

* adjusted for 5:1 consolidation completed June 29, 2016

**In calculating diluted common share numbers for the period ended June 30, 2016, the Company excluded 1,854,400 outstanding options (June 30, 2015 – 3,766,700*) because the exercise price was greater than the average market price of its common shares in the three and six month periods.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

17. Supplementary information

Change in non-cash working capital:

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Trade and other receivables	(\$569,961)	(\$71,534)	(\$1,326,401)	(\$39,457)
Inventory	(816,638)	162,400	(911,430)	(11,244)
Prepaid and other expenses	(1,947,253)	(20,196)	(1,896,980)	(36,862)
Trade and other payables	1,810,352	(186,167)	1,694,343	(546,510)
Deferred revenue	-	(163,978)	-	(34,521)
Deposits	36,335	-	44,918	-
Lease inducement	(10,124)	-	26,008	-
	(\$1,497,289)	(\$279,475)	(\$2,369,542)	(\$668,594)

18. Related party transactions

The following costs were paid to related parties that are included in general and administrative expenses on the consolidated statements of operations and comprehensive loss for the six months ended June 30, 2016:

- The Company incurred legal costs in the amount of \$17,396 (2015 – \$13,515) to a lawyer who is an officer of the Company, of which \$10,440 (2015 – \$Nil) is included in trade and other payables.
- The Company incurred a total of \$nil (2015 – \$30,000) for professional services payable to a private corporation controlled by a former officer of the Company.
- The Company incurred a rental expense of \$146,140 (2015 - \$nil) paid to a company controlled by a director of the Company..
- Key management personnel compensation - the Company considers the key management personnel of the Company to be its officers and directors. The compensation included in general and administrative expenses relating to key management personnel for the first six months of 2016 was as follows:

For the six months ended June 30,	2016	2015
Salaries / compensation	\$85,000	\$149,619
Stock based compensation	-	302,158
Total for the period	\$85,000	\$451,777

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

19. 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:

	June 30, 2016	December 31, 2015
Convertible debentures	\$11,387,950	\$5,886,180
Shareholders' deficiency	(6,398,050)	(3,163,216)
Balance, convertible debentures	\$4,989,900	\$2,722,964

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.

20. Financial risk management

The Company is exposed to a variety of financial risks by virtue of its activities, including fair value risk, 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. The Company identifies and evaluates financial risks in close cooperation with other management personnel. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

Fair value risk:

Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, current portion of long-term debt, deferred financing and due to director approximate fair value due to the short-term nature of these instruments. The fair value of the

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

20. Financial risk management (*continued*)

convertible debenture is calculated by discounting future debt service payments using an estimated market rate of interest.

Any financial assets and financial liabilities measured at fair value (currently there are none) in the statement of financial position are grouped into three levels of 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.

Currency risk

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

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 June 30, 2016 and December 31, 2015, there were no foreign exchange contracts outstanding.

At June 30, 2016, the Company is exposed to currency risk through the following assets and liabilities denominated in other currencies:

	US Dollars (\$)	CNY (¥)
Cash and equivalents	2,452,038	2,062,791
Trade accounts receivable	16,635	6,938,866
Trade accounts payable	(1,029,144)	(10,453,698)
	1,439,529	(1,452,041)

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Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

20. Financial risk management (continued)

At December 31, 2015, the Company is exposed to currency risk through the following assets and liabilities denominated in other currencies:

	US Dollars (\$)	HK Dollars	CNY (¥)
Cash and equivalents	5,726,783	-	2,574,082
Trade accounts receivable	255,577	-	178,057
Trade accounts payable	(884,597)	(108,911)	(2,721,359)
	5,097,763	(108,911)	30,780

Based on the above net exposures as at June 30, 2016 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 \$157,528 (for the year ended December 31, 2015 - \$704,242) in the Company's net loss for the period.

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 the product. 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.

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 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 low and as normal course of business. However, the Company's new standard policy is to collect payments in advance, greatly reducing this credit risk. At June 30, 2016, the Company recognized an allowance for doubtful accounts of \$193,709 (December 31, 2015 - \$235,267). The bad debt provision as at June 30, 2016 is net of amounts collected from amounts for which provisions had previously been recorded.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

20. Financial risk management (continued)

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 June 30, 2016 and December 31, 2015 is represented as follows:

As at	June 30, 2016	December 31, 2015
Not past due	\$732,154	\$103,835
Past due 31 - 180 days	661,951	213,937
Past due 181 - 365 days	168,593	-
Over 365 days	10,424	86,043
	1,573,122	403,815
Allowance for doubtful accounts	(193,709)	(235,267)
	\$1,379,413	\$168,548
	For the six months ended June 30, 2016	For the year ended December 31, 2015
Opening balance	\$235,267	\$687,758
Bad debt expense	(25,106)	194,382
Recoveries (write offs)	-	(412,168)
Foreign exchange	(16,452)	(234,705)
Closing balance	\$193,709	\$235,267

Economic Dependence

Two customers represented 59% of the total revenue during the period ended June 30, 2016 as compared to one customer representing 48% during the year ended December 31, 2015.

Two vendors represented 63% of purchases during the six months ended June 30, 2016 compared to two vendors representing 51% during the year ended December 31, 2015.

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 long-term debt is limited due to the fixed interest rate.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

20. Financial risk management (continued)

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.

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 receivables 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 as at June 30, 2016:

Financial liabilities and commitments	< One Year	> One Year
Convertible debentures	-	\$11,387,950
Trade and other payables	\$4,255,765	
Total	\$4,255,765	\$11,387,950

The following are the contractual maturities of financial liabilities and other commitments as at December 31, 2015:

Financial liabilities and commitments	< One Year	> One Year
Long-term debt	\$875,000	-
Convertible debentures		\$5,886,180
Deferred financing	4,835,600	-
Trade and other payables	2,317,683	-
Total	\$8,028,283	\$5,886,180

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.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

21. Segmented information

The Company determines its operating segments based on internal information regularly reviewed by management to allocate resources and assess performance. The Company is organized into two sales geographic areas consisting of China and the Americas. These regions are organized to manage sales and distribution channels and are not currently maintained or managed as operating regions.

The Company sells primarily through dealers, distributors and OEM partners.

Segmented revenues for the periods ending June 30, 2016 and 2015 are as follows:

	China	Americas	Total
Three months ended June 30,			
2016	\$902,917	\$146,085	\$1,049,002
2015	\$364,687	\$252,731	\$617,418
Six months ended June 30,			
2016	\$1,489,703	\$395,731	\$1,885,434
2015	\$585,630	\$517,173	\$1,102,803

22. Commitments and contingencies

a) The Company is committed to the following payments:

	Facility Canada	Facility China	Automobile	Total
2016	\$142,435	\$379,169	\$3,873	\$525,477
2017	296,371	758,339	7,746	1,062,456
2018	307,872	370,325	7,746	685,943
2019	316,498	44,703		361,201
2020	325,124	-		325,124
Beyond 2020	493,438	-		493,438
	\$1,881,738	\$1,552,536	\$19,365	\$3,453,639

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

22. Commitments and contingencies (continued)

b) A bank guarantee for US\$148,700 was issued on July 24, 2007 in relation to an international tender contract. The bank guarantee was cleared in December 2015.

c) As of June 30, 2016, a general security agreement was still outstanding between the Company and a vendor who has a first charge on the assets of the Company. The vendor also signed a forbearance agreement with the Company. In August 2016, the Company settled all claims with the vendor and the general security agreement was removed by the vendor. The Company has included in the trade and other payables as at June 30, 2016 an estimate of the accounts payable in dispute.

d) The Company was involved in a legal claim by a former supplier for an unpaid amount of \$236,584 owing to this firm. The Company successfully resolved the claim for a total settlement amount of \$160,000 during May 2015 resulting in a gain on settlement of debt of \$78,359 in the year ended December 31, 2015.

23. Operating expenses by nature

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Employee related	\$987,151	\$344,011	\$1,596,477	\$598,857
Travel and related	196,298	90,384	240,473	135,621
Professional fees	230,206	56,611	433,024	101,468
Facility and utilities	256,498	62,489	382,534	109,891
Communications	8,496	3,995	16,574	11,090
Other administrative costs	53,298	68,727	227,458	100,989
Trade shows and marketing	29,163	4,508	99,942	30,949
Research supplies	-	19,716	-	30,951
Insurance	14,479	12,491	21,677	19,557
	\$1,775,589	\$662,932	\$3,018,159	\$1,139,373

24. Subsequent events

a) On August 11, 2016, the Company announced a non-brokered private placement financing of secured convertible debentures for gross proceeds of up to \$6,000,000. The convertible debentures will mature two years from the date of issue, accrue interest at a rate of 6.0% per year, payable annually on the anniversary date of the closing date and are convertible into common shares of the Company at the holder's option at a price of \$0.11 per common share for a period of two years from the closing of the offering.

Imaging Dynamics Company Ltd.

Notes to the Unaudited Consolidated Financial Statements

For the 3 and 6 months ended June 30, 2016 and 2015

24. Subsequent events (continued)

The financing is expected to close on or about August 31, 2016. The financing remains subject to certain conditions including, but not limited to, the final approval of the TSX Venture Exchange.

b) A statement of claim against the Company was settled pursuant to note 22(c).