

IMAGING DYNAMICS COMPANY LTD.

FINANCIAL RESULTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017



Your Global Medical Imaging Technology Provider

Management Report

To the Shareholders of Imaging Dynamics Company Ltd.:

The accompanying condensed consolidated interim financial statements for the nine months ended September 30, 2017 of Imaging Dynamics Company Ltd. (the "Company") are the responsibility of Management. The condensed consolidated interim 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. The Corporation's auditors have not reviewed or audited these condensed consolidated interim financial statements.

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"

Signed: "Yi Liu"

Yucheng Zhou

Yi Liu

President and Chief Executive Officer
November 28, 2017

Chief Financial Officer

Imaging Dynamics Company Ltd.
Condensed Consolidated Interim Statements of Financial Position
(unaudited, expressed in Canadian dollars)

As at	Note *	September 30, 2017	December 31, 2016
		(unaudited)	(unaudited)
Assets			
Current			
Cash and cash equivalents		\$ 349,902	\$ 7,076,719
Trade and other receivables	7	3,899,660	4,842,506
Loan receivable	8	791,983	-
Inventory	9	2,136,614	2,198,902
Prepaid expenses and other		2,297,462	824,121
		9,475,620	14,942,248
Non-current assets			
Property, plant and equipment	10	804,202	714,989
Intangible assets	11	2,701,951	1,157,155
Total Assets		\$ 12,981,773	\$ 16,814,392
Liabilities			
Current			
Trade and other payables	12 and 22	\$ 5,049,264	\$ 4,311,686
Customer deposits		166,179	124,787
Lease inducement		36,946	37,678
Warranty provision		106,138	81,768
Deferred Financing		1,031,798	
Loan payable	13	5,627,990	3,860,035
		12,018,315	8,415,954
Long-term liabilities			
Convertible debentures	14	17,526,108	17,258,543
Lease inducement		54,848	82,449
Total Liabilities		29,599,272	25,756,946
Shareholders' deficiency			
Share capital	15	78,147,450	78,147,450
Share-based payments reserve	16	7,186,107	7,186,107
Contributed surplus	17	5,506,233	5,507,196
Other comprehensive income		(441,048)	(437,282)
Deficit		(107,021,293)	(99,346,025)
Shareholders' deficiency attributable to owners of the Company		(16,622,551)	(8,942,554)
Non-controlling interests		5,053	-
Total Liabilities and Shareholders' deficiency		\$ 12,981,773	\$ 16,814,392

On behalf of the Board:

"Signed" Yucheng Zhou
Yucheng Zhou, Chief Executive Officer

"Signed" Paul Lin
Paul Lin, Director

Imaging Dynamics Company Ltd.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

(unaudited, expressed in Canadian dollars)

	Note*	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
Revenues		\$895,648	\$1,305,822	\$2,244,501	\$3,191,256
Cost of sales		880,336	756,620	1,934,598	2,148,184
Gross profit		15,313	549,202	309,904	1,043,072
Expenses					
Sales and marketing		1,068,163	899,537	3,015,759	1,943,321
General and administrative	20	983,420	836,815	3,090,898	2,327,385
Production and manufacturing		-	63,689	-	266,037
Research and development		44,571	(14,097)	140,662	267,360
Foreign exchange loss (gain)		37,861	(98,569)	44,286	33,303
Warranty provision		7,871	(76,081)	24,397	(68,320)
Share based payment		-	-	-	-
Bad debt expense (recovery)		33,130		176,365	(25,106)
Depreciation of property, plant and equipment	10	60,478	29,093	167,886	62,484
Amortization of intangible assets	11	15,423	12,315	65,485	21,872
		2,250,917	1,652,702	6,725,738	4,828,336
Loss before finance costs		(2,098,914)	(1,103,500)	(6,415,835)	(3,785,264)
Finance costs					
Interest expense		473,941	259,252	1,358,794	715,885
Interest and other income		(41,765)	(1,724)	(66,484)	(4,777)
Gain on settlement of debt			(118,119)		(118,119)
Income before taxes		(2,531,091)	(1,242,909)	(7,708,145)	(4,378,253)
Deferred tax recovery		-	-	-	(90,763)
Net loss		(2,531,091)	(1,242,909)	(7,708,145)	(4,287,490)
Other comprehensive income					
Foreign currency translation loss (gain)		5,384	(1,393)	(756)	434,255
Net loss and comprehensive loss		(\$2,525,706)	(\$1,241,516)	(\$7,708,901)	(\$4,721,745)
Net loss attributable to:					
Owners of the Company		(2,518,995)	(1,242,909)	(7,675,268)	(4,287,490)
Non-controlling interests		(12,096)	-	(32,878)	-
Net loss		(2,531,091)	(1,242,909)	(7,708,145)	(4,287,490)
Net loss and comprehensive loss attributable to:					
Owners of the Company		(2,517,911)	(1,241,516)	(7,679,034)	(4,721,745)
Non-controlling interests		(7,795)	-	(29,867)	-
Net loss and comprehensive loss		(\$2,525,706)	(\$1,241,516)	(\$7,708,901)	(4,721,745)
Net loss per share, basic and diluted	18	\$(0.04)	\$(0.02)	\$(0.13)	\$(0.07)

* the accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Imaging Dynamics Company Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency

(unaudited, expressed in Canadian dollars)

	Note*	Share Capital	Minority Interest	Share- based payments reserve	Contributed surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Deficiency
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)		-	-	-	422,798	-	-	\$422,798
Foreign exchange gain on translation		-	-	-	-	(529,476)	-	(529,476)
Loss for the year		-	-	-	-	-	(5,672,660)	(5,672,660)
Balance December 31, 2016		78,147,450	-	7,186,107	5,507,196	(437,282)	(99,346,025)	(8,942,554)
Contributed Surplus		-	-	-	(963)	-	-	(963)
Foreign exchange gain (loss) on translation	17	-	-	-	-	(3,766)	-	(3,766)
Loss for the year		-	-	-	-	-	(7,675,268)	(7,675,268)
Non-controlling interest arising from the acquisition of IDC (Guangzhou)		-	34,920	-	-	-	-	34,920
Loss for the period attributable to the non-controlling interest		-	(32,878)	-	-	-	-	(32,878)
Minority Foreign exchange gain (loss) on translation		-	3,011	-	-	-	-	3,011
Balance September 30, 2017		\$78,147,450	\$5,053	\$7,186,107	\$5,506,233	(\$441,048)	(\$107,021,293)	(16,617,499)

* the accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Imaging Dynamics Company Ltd.
Condensed Consolidated Interim Statements of Cash Flows
(unaudited, expressed in Canadian dollars)

	Note*	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
Cash provided by (used in):					
Operating activities					
Net loss		(\$2,525,706)	(\$1,242,909)	(\$7,708,901)	(\$4,287,490)
Items not affecting cash:					
Depreciation of property, plant & equipment		60,478	29,093	167,886	62,484
Amortization of intangible assets		15,423	12,315	65,485	21,872
Foreign exchange loss (gain)		37,861	(40,840)	44,286	137,893
Loan accretion and accrued interest		473,941	(134,342)	1,358,794	322,291
Warranty expense (recovery)		7,871	(76,080)	24,397	(71,656)
Deferred tax recovery		-	-	-	(90,763)
		(1,930,131)	(1,452,763)	(6,048,052)	(3,905,369)
Change in non-cash working capital	18	1,291,848	(2,581,948)	(1,592,120)	(4,951,490)
		(638,283)	(4,034,711)	(7,640,172)	(8,856,859)
Investing activities					
Additions to property, plant and equipment	9	(11,648)	(220,961)	(257,100)	(718,998)
Additions to intangible assets	10	(621,138)	(474,335)	(1,610,281)	(636,809)
Proceeds on disposition of property, plant and equipment			8,929		8,929
		(632,785)	(686,367)	(1,867,380)	(1,346,878)
Financing activities					
Convertible debentures, net of issue costs		-	-	(30,963)	5,721,306
Deferred Financing		1,031,798	5,891,234	1,031,798	1,055,634
Loan payable		(113,967)	1,964,984	1,767,955	1,964,984
Repayment of long-term debt					(875,000)
Acquisition of non controlling interest		-	-	12,702	-
		917,831	7,856,218	2,781,492	7,866,924
Effect of foreign exchange on cash		5,384	56,437	(756)	(564,084)
Net (decrease) increase in					
cash and cash equivalents		(347,854)	3,191,577	(6,726,817)	(2,900,897)
Cash and cash equivalents					
beginning of period		697,756	4,036,159	7,076,719	10,128,633
Cash and cash equivalents					
end of period		\$349,902	\$7,227,736	\$349,902	\$7,227,736

* the accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Imaging Dynamics Company Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(unaudited, expressed in Canadian dollars)

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.

These condensed consolidated interim financial statements consolidate the accounts of the Company and its wholly-owned subsidiaries: IDC USA, Inc., 1370509 Alberta Inc., Shanghai IDC Healthcare Co. ("IDC Shanghai"), Ltd., and Imaging Dynamics Company (Hong Kong) Ltd.

During the quarter ended September 30, 2017, IDC Shanghai acquired 100% of the share capital of IDC Healthcare (Beijing) Co. Ltd ("IDC Beijing"). Prior to this, IDC Beijing was a wholly-owned subsidiary of IDC.

On April 10, 2017, IDC Beijing closed on the acquisition of 51% of the common shares of Guangzhou Service Medical Tech. Co. Ltd ("Guangzhou Service"), a Chinese company. The name of this subsidiary has been changed from Guangzhou Service to IDC (Guangzhou) Ltd.

On September 11, IDC announced that IDC Shanghai has a financing with each of Beijing Sheng Xexin and Beijing Xiangyuda. The total transaction is RMB 67M. Beijing Sheng Xexin and Beijing Xiangyuda will subscribe for 36.5M common shares and 30.5M common shares respectively. On October, another company Shanghai Fuli also joined this financing. The transaction for this company is 13M common shares. This transaction will allow the subsidiary to improve market penetration in China where relatively recent changes to the government policies and regulations require state-owned hospitals which comprise more than 80% of the medical devices market share in China. This transaction has not finalized yet.

The Company's technology produces digital diagnostic images. Its purpose is to replace the need for film and chemical film processing, as well as reduce 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 consolidated financial statements of the Company have been prepared by Management on a going concern basis 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 September 30, 2017, the Company had negative working capital of \$2,542,695 (working capital at December 31, 2016 – \$6,526,294), negative cash flows from operating activities for the period of \$7,640,172 (year ended December 31, 2016 – \$10,418,348) and a net loss for the period of \$7,708,145 (year ended December 31, 2016 – \$5,672,660) and deficit at September 30, 2017 of \$107,021,293 (December 31, 2016 – \$99,346,025). The ability of the Company to continue as a going concern will depend on attaining a satisfactory revenue level, the generation of cash from operating activities, 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 \$17.9 million on a net basis, and issued share capital and warrants in 2015 for net proceeds of \$2.0 million. The Company will seek to raise additional capital through equity markets, debt markets or other innovative financing

Imaging Dynamics Company Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(unaudited, expressed in Canadian dollars)

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 condensed consolidated financial statements ("interim financial statements") were authorized for issuance by the Board of Directors on Nov 28, 2017. The Company prepared these interim financial statements 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") in effect at January 1, 2017.

The interim financial statements do not include all information and disclosures normally provided in annual financial statements and should be read in conjunction with the Company's year ended December 31, 2016 audited consolidated financial statements available at www.sedar.com. The Company has prepared these interim financial statements using the same accounting policies and critical accounting estimates applied in the Company's year ended audited consolidated financial statements.

b) Basis of measurement

These interim financial statements have been prepared on a historical cost basis except as discussed in the significant accounting policies in the Company's year ended audited consolidated financial statements.

The loan receivable included in the Company's financial statements as at September 30, 2017 has been recognized at the amount expected to be received in current assets due to its short-term nature.

The Company measures the transactions in its entities using the currency of the primary economic environment in which the entity operates (functional currency). These interim 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"). The functional currency of the inactive subsidiaries includes CAD, US dollars and Hong Kong dollars.

The interim financial statements have, in management's opinion, been properly prepared using careful judgment and reasonable limits of materiality. These interim financial statements are prepared within the framework of the same significant accounting policies, critical judgments, accounting estimates, and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2016. The interim financial statement note disclosures do not include all of those required by IFRS applicable to annual financial statements. Accordingly, the interim financial

Imaging Dynamics Company Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(unaudited, expressed in Canadian dollars)

statements should be read in conjunction with the consolidated financial statements and notes thereto as at and for the year ended December 31, 2016.

4. Summary of significant accounting policies

The accounting policies applied by the Company in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Company in its Financial Statements for the year ended December 31, 2016 except for the following new policy:

a) Non-controlling interests

The Company measures any non-controlling interests in the acquiree at the proportionate share of the acquiree's net identifiable assets.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original acquisition and the non-controlling shareholder's share of changes in equity since the date of the acquisition. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

5. New Accounting Standards Adopted

The Company adopted the following standards or amendments that were effective at January 1, 2017:

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 and can be applied prospectively. This amended standard did not have a material effect on the Company.

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. This standard did not have a material effect on the Company.

6. Acquisition of subsidiary

On April 10, 2017, the Company closed on the acquisition of 51% of the common shares of Guangzhou Service Medical Tech. Ltd. Co. ("Guangzhou Service"), a Chinese company for an equivalent \$98,635 (510,000 CNY). Guangzhou Service will provide servicing of equipment in the medical device industry. The name of this subsidiary has been changed from Guangzhou Service to IDC (Guangzhou) Ltd.

Imaging Dynamics Company Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(unaudited, expressed in Canadian dollars)

7. Trade and other receivables

		September 30, 2017	December 31, 2016
Trade receivables	Note 22	\$3,812,251	\$4,830,685
GST and other		87,409	11,821
		\$3,899,660	\$4,842,506

Allowance for doubtful accounts of \$355,921 (December 31, 2016 - \$199,098) has been netted against trade receivables (see Note 22).

8. Loan receivable

During the nine months period ended September 30, 2017, the Company advanced 8,000,000 CNY to an unrelated third party supplier and 4,000,000 CNY was subsequently repaid, leaving a balance of 4,000,000 CNY, or an equivalent of \$791,983. This CNY denominated short term advance bears interest at 7%. The remaining amount and associated interest was paid on November 1, 2017.

9. Inventory

	September 30, 2017	December 31, 2016
Inventory net of allowance for obsolescence	\$2,136,614	\$2,198,902

Included in inventory is \$970,773 (2016 - \$1,182,196) of purchased components and \$1,165,841 (2016 - \$1,016,706) of finished goods. During the nine months period ended September 30, 2017, the Company recorded a provision for inventory obsolescence of \$25,489 (year ended December 31, 2016 - \$24,906).

Imaging Dynamics Company Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(unaudited, expressed in Canadian dollars)

10. Property, plant and equipment

Cost	Technical, lab and computer equipment	Leasehold improvements	Office equipment	Tradeshow equipment	Total
Balance,					
December 31, 2015	\$1,967,220	\$95,362	\$499,201	\$1,099,100	\$3,660,883
Additions	125,625	527,929	73,367	5,975	732,896
Disposals	(9,237)	(95,362)	(8,404)	-	(113,003)
Foreign exchange	6,409	(5,203)	(1,350)	-	(144)
Balance,					
December 31, 2016	2,090,017	522,726	562,814	1,105,075	4,280,632
Additions	8,508	93,171	21,813	133,607	257,099
Disposals	4,563	-	(11,976)	-	(7,413)
Balance,					
September 30, 2017	2,103,088	615,897	572,651	1,238,682	4,530,318
Accumulated depreciation					
Balance,					
December 31, 2015	\$1,916,477	\$95,362	\$451,128	\$1,099,100	3,562,067
Depreciation	42,404	44,593	20,668	249	107,914
Disposals	(308)	(95,362)	(8,404)	-	(104,074)
Foreign exchange	(90)	(150)	(24)	-	(264)
Balance,					
December 31, 2016	1,958,483	44,443	463,368	1,099,349	3,565,643
Depreciation	48,306	79,816	25,370	14,394	167,886
Disposals	-	-	(7,413)	-	(7,413)
Balance,					
September 30, 2017	2,006,789	124,259	481,325	1,113,743	3,726,116
Net book value as at:					
December 31, 2016	\$131,534	\$478,283	\$99,446	\$5,726	\$714,989
September 30, 2017	\$96,300	\$491,638	\$91,326	\$124,939	\$804,202

Imaging Dynamics Company Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(unaudited, expressed in Canadian dollars)

11. Intangible assets

Cost	Software	Digital X-ray technology patents, development, and licenses	Total
Balance, December 31, 2015	\$742,882	\$391,964	\$1,134,846
Additions	54,919	1,166,361	1,221,280
Foreign exchange	(1,502)	(26,313)	(27,815)
Balance, December 31, 2016	\$796,299	\$1,532,012	\$2,328,311
Additions	62,892	1,547,389	1,610,281
Balance, September 30, 2017	\$859,191	\$3,079,401	\$3,938,592
Accumulated amortization			
Balance December 31, 2015	722,719	387,084	1,109,803
Amortization	31,265	30,373	61,638
Foreign exchange	(338)	53	(285)
Balance, December 31, 2016	\$753,646	\$417,510	1,171,156
Amortization	31,200	34,285	65,485
Balance, September 30, 2017	\$784,846	\$451,795	\$1,236,641
Net book value as at:			
December 31, 2016	\$42,653	\$1,114,502	\$1,157,155
September 30, 2017	\$74,345	\$2,627,606	\$2,701,951

12. Trade and other payables

As at	September 30, 2017	December 31, 2016
Trade payables	\$2,295,276	\$2,995,016
Interest payable	970,228	815,009
Other payables and accruals	1,783,760	501,661
Trade and other payables	\$5,049,264	\$4,311,686

Imaging Dynamics Company Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(unaudited, expressed in Canadian dollars)

13. Loan payable

In August 2016, the Company established a short-term loan payable with a private corporation controlled by a director of the Company. Under this loan, the Company received advances of 10,000,000 CNY in August 2016 and a further 10,000,000 CNY in December 2016, a total of 20,000,000 CNY (or an equivalent of \$3,827,971) as of September 30. This CNY denominated loan bears interest at 7% per annum. \$1,913,986 (10,000,000 CNY) of principal is paid on October 15, 2017 and the associated interest payments are paid as well. The remaining loan principal of \$1,913,985 (10,000,000 CNY) is due on December 1, 2017 and the associated interest payments are due quarterly.

On April 13, 2017, the Company established a short-term loan payable with a private corporation controlled by a director of the Company. Under this loan, the Company received an advance of 10,000,000 CNY or an equivalent of \$1,913,986. This CNY denominated loan bears interest at 7% per annum. The full amount of the loan is due on April 13, 2018 and the associated interest payments are due quarterly.

14. Convertible Debentures

As at	September 30, 2017	December 31, 2016
Convertible debentures, face value		
September 28, 2015 offering	\$ 6,250,000	\$ 6,250,000
January 22, 2016 offering	5,750,000	5,750,000
October 7, 2016 offering	6,000,000	6,000,000
June 8, 2017 partial redemption	(30,000)	-
	\$17,970,000	\$18,000,000
Equity portion of debentures	(943,601)	(944,564)
Amortization of discount	606,514	309,912
Issue costs	(106,805)	(106,805)
Balance, convertible debentures	\$17,526,108	\$17,258,543

During 2015 and 2016, the Company completed the following non-brokered private placement financings of convertible debentures. The convertible debentures are compound financial instruments consisting of the debt instrument and an equity feature.

a) On September 28, 2015, the Company completed a convertible debentures financing 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 six years on or before September 28, 2018. The debt instrument was recorded at amortized cost using the effective interest method at an annual discount rate of 8.28% over the six year life of the debentures. The gross proceeds of \$6,250,000 were allocated between the debt instrument for \$5,884,611 and to the equity component for \$365,389.

Imaging Dynamics Company Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(unaudited, expressed in Canadian dollars)

14. Convertible Debentures (Continued)

b) On January 22, 2016, the Company completed a convertible debentures financing 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, 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 six years on or before January 22, 2019, and are secured by a first charge against the assets of the Company. 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.

c) On October 7, 2016, the Company completed a convertible debentures financing for gross proceeds of \$6,000,000 in principal amount. The convertible debentures have a maturity date of October 7, 2018, bear interest at a rate of 6.0% per year payable annually, are convertible into common shares of the Company at the holder's option at a conversion price of \$0.125 per common share for a period of two years on or before October 7, 2018, and are secured by a first charge against the assets of the Company. 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 2 years. The gross proceeds of \$6,000,000 were allocated between the debt instrument for \$5,756,983 and to the equity component for \$243,017.

d) On June 8, 2017, \$30,000 Convertible debentures issued on January 22, 2016 were redeemed by the holder thereof. Interest of \$2,471 was also paid to the holder of the debenture.

All per share amounts have been adjusted for a 5 to 1 consolidation that took place in June 2016 (see note 15).

15. Share capital

- a) Authorized:
An unlimited number of common shares
An unlimited number of non-voting redeemable preferred shares

- b) Issued and outstanding:

	Nine months ended September 30, 2017		Year ended December 31, 2016	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	58,857,656	\$78,147,450	294,288,356	\$78,147,450
Adjust for 5:1 consolidation (i)	-	-	(235,430,700)	-
Balance, end of period	58,857,656	\$78,147,450	58,857,656	\$78,147,450

- i. 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

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completed on June 29, 2016 and as a result there were 58,857,656 common shares outstanding at June 30, 2016 and forward.

16. Share-based payments

The Company has established a share-based compensation plan for its directors, officers, employees, consultants and other key personnel (the "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.

There were no stock options granted in the year ended December 31, 2016 or in the nine month period ended September 30, 2017.

As at September 30, 2017, 4,131,366 common shares (December 31, 2016 – 4,131,366) remain in reserve. Under the Stock Option Plan, the following options are outstanding as at the dates shown as follows:

	September 30, 2017		December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	1,754,400	\$0.26	18,808,500	\$0.06
Adjust for 5:1 consolidation	-		(15,046,800)	
Issued in the period	-		-	
Cancelled / expired in the period	(54,400)	\$0.50	(2,007,300)	\$0.33
Balance, end of period	1,700,000	\$0.25	1,754,400	\$0.26
Options exercisable at the end of the period	1,700,000	\$0.25	1,754,400	\$0.26

Since December 31, 2015, the share-based payments reserve with respect to share-based compensation is \$7,186,107.

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16. Share-based payments (continued)

Stock option plan

The following table summarizes information of the Company's Stock Option Plan as at September 30, 2017:

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 \$0.25	1,700,000	31.7	\$0.25	1,700,000	\$0.25	
	1,700,000	31.7	\$0.25	1,700,000	\$0.25	

The following table summarizes information of the Company's Stock Option Plan as at December 31, 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 \$0.25	1,700,000	40.7	\$0.25	1,700,000	\$0.25	
\$0.30 to \$0.50	54,400	8.9	\$0.50	54,400	\$0.50	
	1,754,400	39.8	\$0.26	1,754,400	\$0.26	

17. Contributed surplus

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

	September 30, 2017	December 31, 2016
Balance, beginning of period	\$5,507,196	\$5,084,398
Convertible debenture issued (net of tax)	-	422,798
Partial redemption of convertible debenture (net of tax)	(963)	-
Balance, end of period	\$5,506,233	\$5,507,196

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18. Per share amounts

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016 *	2017	2016 *
Net loss for the period attributable to owners of the Company	(\$2,518,995)	(\$1,242,909)	(\$7,675,268)	(\$4,287,490)
Weighted average number of common shares outstanding	58,857,656	58,857,656	58,857,656	58,857,656
Basic and diluted loss per share	(\$0.04)	(\$0.02)	(\$0.13)	(\$0.07)

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

In calculating diluted common share numbers for the nine months period ended September 30, 2017, the Company excluded 1,700,000 outstanding options (2016 – 1,754,500*), nil (2016 – 10,000,000) warrants and 148,833,333 (2016 – 100,833,333) shares issuable on conversion of convertible debentures because they were anti-dilutive. On February 23, 2017, 10,000,000 of stock warrants expired.

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

19. Supplementary information

Change in non-cash working capital:

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Trade and other receivables	\$ (473,959.00)	\$ (526,017)	\$ (139,721.51)	\$ (1,852,418)
Loan receivable	(26,389)	-	(791,983)	
Inventory	161,627	(2,442,032)	62,288	(3,353,462)
Prepaid expenses and other	154,730	1,022,409	(1,473,341)	(874,571)
Trade and other payables	1,625,480	(620,490)	737,578	1,073,853
Customer deposits	(140,508)	(25,688)	41,392	19,230
Lease inducement	(9,132)	9,870	(28,332)	35,878
	\$1,291,848	(\$2,581,948)	(\$1,592,120)	(\$4,951,490)

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20. Related party transactions

The following transactions were entered into with related parties during the nine months period ended September 30, 2017:

- a) The Company incurred legal costs in the amount of \$10,210 (2016 – \$24,809) to a lawyer who is an officer of the Company, of which \$nil (2016 – \$18,822) is included in trade and other payables.
- b) The Company incurred a rental expense of \$346,530 (2016 - \$268,377) paid to a company controlled by a director of the Company and a total of \$215,657 (2016 - \$nil) is included in trade and other payables.
- c) Officers and a private corporation controlled by an officer of the Company provided \$10,543,754 of the total \$17,970,000 principal of convertible debentures financing raised in 2015 and 2016. The Company incurred 6% coupon interest expense of \$471,467 (2016 - \$407,031) on the portion of these Convertible Debentures held by the related parties, of which \$576,272 (2016 - \$131,689) is included in trade and other payables. The terms of these transactions with those related parties were the same as those with arms-length participants.
- d) Key management personnel compensation - the Company considers the key management personnel of the Company to be its officers and directors. The compensation included in the consolidated statement of operations and comprehensive loss relating to key management personnel for the nine months ended September 30, 2017 and 2016 was as follows:

For the nine months ended September 30,	2017	2016
Salaries / compensation	\$463,264	\$135,833
Share-based compensation	-	-
Total for the period	\$463,264	\$135,833

21. 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:

As at	September 30, 2017	December 31, 2016
Convertible debentures	\$17,526,108	\$17,258,543
Shareholders' deficiency	(16,617,499)	(8,942,554)
	\$908,609	\$8,315,989

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.

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22. 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 loan payable approximate fair value due to the short-term nature of these instruments. The fair value of the 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 consolidated statement of financial position are grouped into six levels of fair value hierarchy. The six 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 CNY. 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 September 30, 2017 and December 31, 2016, there were no foreign exchange contracts outstanding

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22. Financial risk management (continued)

At September 30, 2017, the Company is exposed to currency risk through the following assets and liabilities denominated in other currencies:

	US Dollars (\$)	CNY (¥)
Cash and equivalents	6,732	1,473,392
Trade accounts and loans receivable	463,813	20,149,480
Trade accounts and loans payable	(55,837)	(18,553,549)
	414,708	3,069,323

At December 31, 2016, the Company is exposed to currency risk through the following assets and liabilities denominated in other currencies:

	US Dollars (\$)	CNY (¥)
Cash and equivalents	940,854	15,477,796
Trade accounts receivable	141,137	23,745,584
Trade accounts and loans payable	(97,653)	(36,070,155)
	984,338	3,153,225

Based on the above net exposures as at September 30, 2017 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 \$65,459 (year ended December 31, 2016 - \$579,000) in the Company's net loss for the period.

Foreign exchange differences resulting from converting the subsidiaries' financial statements from their functional currencies to the Canadian dollar are recorded in OCI. As of September 30, 2017, 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 \$155,953 (year ended December 31, 2016 - \$490,000) in the Company's OCI 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 trade and other 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 OEM partners.

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22. Financial risk management (continued)

Many 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 withhold warranty support or warranty parts to a dealer that has not paid, remove the dealer as a qualified Company dealer, as well as all legal recourse measures.

In the Asian medical device industry, it is a local industry practice that companies, especially state-owned and small private companies, do not normally pay vendors based on advance payment credit terms. Vendors often do not charge interest for late payments. Many Asian companies structure and make payments to vendors based on their cash flow. As a result, it is common in the Asian medical device industry for receivables to be overdue for over one year. Given these extended payment terms, there is further credit risk that could result in an increase to uncollectible accounts in the future. As of September 30, 2017, the Company has a large amount of receivables from Chinese customers that are included in the past due 181 – 365 days category and are not considered impaired. As of September 30, 2017, trade accounts receivable includes \$331,299 owing from a customer representing individually over 10% each of the outstanding accounts receivable. In addition, it is the Company's policy to calculate a bad debt provision on receivables greater than 180 days based on historical accounts receivable write-offs. During the nine month period ended September 30, 2017, the Company increased its allowance for doubtful accounts by \$33,130 (year ended December 31, 2016 - \$36,169 decrease). As a result, the Company currently believes its allowance for doubtful accounts is adequate, but continues to monitor its outstanding receivables.

At September 30, 2017, the Company has a total allowance for doubtful accounts of \$355,921 (December 31, 2016 - \$199,098).

The carrying amount of trade and other receivables and cash and cash equivalents represents the maximum credit exposure.

Aging of trade receivables as at September 30, 2017 and December 31, 2016 is represented as follows:

	September 30, 2017	December 31, 2016
Not past due	\$266,207	\$260,525
Past due 31 - 180 days	\$309,419	4,512,058
Past due 181 - 365 days	\$1,654,055	-
Over 365 days	\$1,938,491	257,200
	4,168,171	5,029,783
Allowance for doubtful accounts	(355,921)	(199,098)
	\$3,812,251	\$4,830,685

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22. Financial risk management (*continued*)

The movement in the Company's allowance for doubtful accounts is as follows:

	September 30, 2017	December 31, 2016
Opening balance	\$199,098	\$235,267
Bad debt expense	176,365	5,918
Recoveries	-	(31,024)
Foreign exchange	(19,542)	(11,063)
Closing balance	\$355,921	\$199,098

Economic Dependence

3 customers represented 50% of total revenue during the nine months period ended September 30, 2017 as compared to four customers representing 62% during the year ended December 31, 2016.

One vendor represented 50% of purchases during the nine months period ended September 30, 2017 compared to two vendors representing 52% during the year ended December 31, 2016.

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.

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 with 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.

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22. Financial risk management (continued)

The following are the contractual maturities of financial liabilities and other commitments as at September 30, 2017:

Financial liabilities and commitments	< One Year	> One Year
Convertible debentures	-	\$17,526,108
Trade and other payables	\$5,049,264	
Loan payable	\$5,627,990	
Total	\$10,677,254	\$17,526,108

The following are the contractual maturities of financial liabilities and other commitments as at December 31, 2016:

Financial liabilities and commitments	< One Year	> One Year
Convertible debentures	-	\$17,258,543
Trade and other payables	\$4,311,686	
Loan payable	\$3,860,035	
Total	\$8,171,721	\$17,258,543

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.

23. 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 nine months periods ended September 30, 2017 and 2016 are as follows:

	China	Americas	Total
Three months ended September 30,			
2017	\$624,356	\$271,292	\$895,648
2016	\$1,152,424	\$153,398	\$1,305,822
Nine months ended December 30,			
2017	\$1,513,295	\$731,206	\$2,244,501
2016	\$2,642,127	\$549,129	\$3,191,256